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Trade and Development Board
Trade and Development Commission
Multi-year Expert Meeting on Commodities and Development
Eighth session
Geneva, 21–22 April 2016
Item 2 of the provisional agenda
Adoption of the agenda and organization of work

Provisional agenda and annotations

I. Provisional agenda

1. Election of officers
2. Adoption of the agenda and organization of work
3. Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development
4. Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals
5. Adoption of the report of the meeting

II. Annotations to the provisional agenda

Item 1
Election of officers

1. It is recommended that the expert meeting elect a Chair and a Vice-Chair-cum-Rapporteur.

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Item 2
Adoption of the agenda and organization of work

2. The provisional agenda for the eighth session of the multi-year expert meeting is reproduced in chapter I. The expert meeting will have two days, from 21 to 22 April 2016, to complete its work. The provisional schedule of meetings for the two days is attached in the annex to this document. A detailed programme will be available at the latest one week before the start of the meeting.

Documentation

TD/B/C.I/MEM.2/32 Provisional agenda and annotations

Item 3
Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development

3. The overall topic of the fifth to eighth sessions of the Multi-year Expert Meeting on Commodities and Development, to be held each year from 2013 to 2016, was decided at the fifty-sixth executive session of the Trade and Development Board in 2012. The terms of reference of the eighth session were approved at the meeting of the extended Bureau of the Board held on 30 November 2012. The purpose of the multi-year expert meeting is to monitor the developments, opportunities and challenges in commodity markets, giving due attention to those commodity sectors that are relevant to commodity-dependent developing countries.

4. Discussion on these topics, which will include presentations by national experts and experts from relevant international organizations and commodity bodies, as well as representatives of the private sector and civil society, will serve to inform UNCTAD member States on important developments in key commodity sectors and markets from a development perspective.

5. To facilitate the discussion, the UNCTAD secretariat prepared a document entitled "Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development". The paper reviews recent developments in key commodity markets, including agriculture, minerals, ores and metals, and energy. It highlights price trends and driving forces of price movements and identifies emerging developments in the global commodity economy that are set to change the commodity landscape and pose new challenges for commodity-dependent developing countries. The document concludes with policy recommendations to address those challenges and ensure inclusive growth and sustainable development in those countries.

Documentation

TD/B/C.I/MEM.2/33 Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development

Item 4
Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals

6. The terms of reference for the eighth session indicate that the meeting should review and evaluate UNCTAD activities to assist commodity-dependent developing countries, in light of the post-2015 development agenda, as appropriate, including efforts to strengthen commodity production and improve food security and export competitiveness, taking into account the needs of small-scale producers, family, farms, women and youth in their efforts to increase gains from commodity production and trade. They also stipulate that at the meeting measures should be suggested that could help to address the negative impact of volatility in commodity markets and integrate sustainable and inclusive growth and development strategies into national policies.

7. To facilitate the discussion under the agenda item, the secretariat issued a background note entitled "Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals". The note reviews recent activities of the UNCTAD Special Unit on Commodities in support of commodity-dependent developing countries under the three pillars, namely research and analysis, consensus-building and technical cooperation. It highlights the continued decline in commodity prices and its negative implications on the socioeconomic sector of commodity-dependent developing countries. The note ends with some policy suggestions that could be pursued to mitigate those effects.

Documentation

TD/B/C.I/MEM.2/34 Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals

Item 5
Adoption of the report of the meeting

8. The report of the expert meeting will be submitted to the Trade and Development Commission at its next session. The expert meeting may wish to authorize the Rapporteur, under the authority of the Chair, to prepare the final report after the conclusion of the meeting.

Input from experts: Recent developments and new challenges in commodity markets, and policy options for achieving food security, commodity-based inclusive growth and sustainable development

Experts nominated by member States are encouraged to submit brief papers (approximately five pages) as contributions to the work of the meeting. The papers should be submitted to the UNCTAD secretariat in advance of the meeting and will be made available at the meeting in the form and language in which they are received. Papers, which should draw on the experts' experience, may address one or more of the following issues:

(a) What have the drivers of price trends been in recent years in commodity markets, and what are the opportunities and challenges faced by commodity-dependent developing countries stemming from those trends?

(b) How can trade in primary commodities make a positive contribution to development?

(c) What mechanisms allow primary commodities to enhance trade and contribute to sustainable development?

(d) What policy options do commodity-dependent developing countries have to achieve their food security objectives in the emerging new global environment?

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Annex

Provisional meeting schedule

Wednesday *21 April 2016*	*Thursday* *22 April 2016*
(10 a.m.–1 p.m.)	*(10 a.m.–1 p.m.)*
Plenary Opening statement Item 1 Election of officers Item 2 Adoption of the agenda and organization of work Item 3 Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development – Agricultural commodities	Item 4 Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals
(3–6 p.m.)	*(3–5.30 p.m.)*
Item 3 (continued) Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development – Minerals, ores and metals – Energy: oil, gas and coal	Item 4 (continued) Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals
	(5.30–6 p.m.)
	Item 5 Adoption of the report of the meeting

United Nations TD/B/C.I/MEM.2/33

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11 February 2016

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Trade and Development Board
Trade and Development Commission
Multi-year Expert Meeting on Commodities and Development
Eighth session
Geneva, 21–22 April 2016
Item 3 of the provisional agenda

Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development

Note by the UNCTAD secretariat

Executive summary

This paper reviews recent developments in key commodity markets and analyses the factors that contributed to fluctuations in commodities prices in 2015. On the whole, prices of commodities, except for some products such as tea, cocoa and cotton, continued a downward trend that had started in 2011. The global commodities rout poses a serious threat to commodity-dependent developing countries in terms of export earnings, employment and public service provision. Moreover, if low levels of fossil fuel prices persist, this may become a disincentive to the development of renewable energy, hampering global efforts to achieve development that is more environmentally sustainable. The adverse impacts of declining global commodity markets on the world economy, particularly on the economies of commodity-dependent developing countries, could be addressed if pragmatic policies such as economic diversification were adequately implemented. Addressing these issues is critical for the sustainability of the global economy, especially in view of the recently adopted Sustainable Development Goals, whose purpose is to "leave no one behind". The present paper, therefore, explores some policy issues related to the recent developments in global commodity markets and suggests recommendations that could help commodity-dependent developing countries achieve sustainable development and inclusive growth.

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Introduction

1. The Accra Accord (paragraph 208) mandated the Trade and Development Board of the United Nations Conference on Trade and Development (UNCTAD) to establish a multi-year expert meeting on commodities and development. This mandate was reiterated in the Doha Mandate (paragraph 17), which extended it from 2013 to 2016. The current expert meeting is the last of the cycle, pending renewal of the mandate by the upcoming fourteenth session of the Conference.

2. This paper analyses commodity market developments during 2015 with a special focus on price trends and the underlying causes of price fluctuations. It also highlights some policy issues associated with recent market developments and draws lessons in the form of policy recommendations to assist commodity-dependent developing countries in their efforts to achieve inclusive economic growth and sustainable development. This paper groups commodities into three categories, namely food and agricultural commodities;[1] minerals, ores and metals; and energy.[2]

I. Recent developments in commodity markets

A. Overview

3. Broadly speaking, commodity markets suffered a continuing price slump throughout most of 2015 caused primarily by the following factors: oversupply; slowing demand, especially for minerals and metals, in China and other emerging economies;[3] faltering economic recovery in advanced economies such as Japan and the European Union; and a strong United States dollar. The UNCTAD non-oil nominal commodity price index[4] averaged 194 points in October 2015 from nearly 219 points in January 2015, a decline of 25 points in only 10 months. Since the peak observed in February 2011, there has been a general decline in non-oil commodity prices. Price indices for food; agricultural raw materials; and minerals, ores and metals that make up the index have followed the same pattern since 2011 (figure 1).

4. During 2015, the prices of most commodities fell. For example, in January 2015, the price of wheat (hard red winter No. 2) was $261, decreasing to $218 in October 2015. A similar trend could be observed for maize and rice. Prices for beverages such as robusta coffee followed the same pattern. Raw materials, especially tropical timber, also experienced declining prices. By contrast, cotton experienced a moderate price recovery from January–October 2015, while the prices of cocoa and tea remained elevated over the same period, compared with those of the previous year.

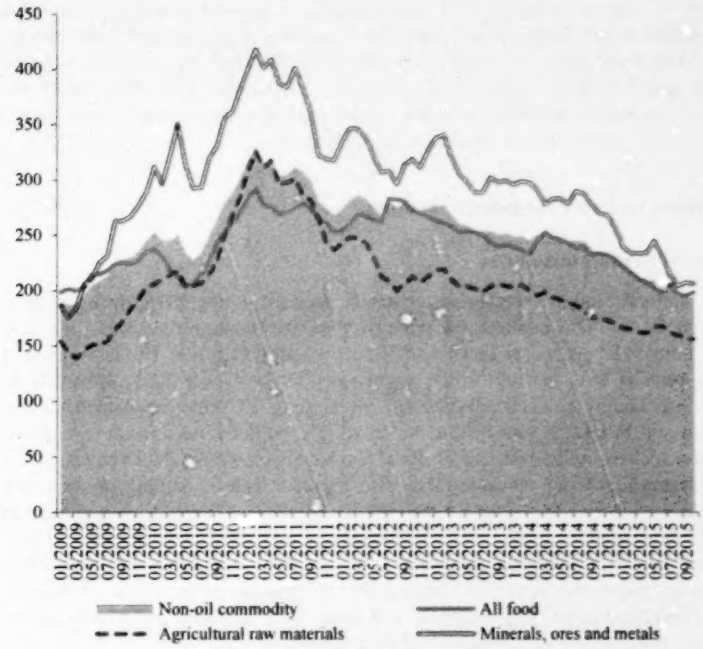
[1] Food, tropical beverages, vegetable oil seeds and oils, and agricultural raw materials.

[2] Oil, gas, coal and renewable energy.

[3] For example, China's merchandise imports decreased by 2.2 per cent in the second quarter of 2015 (year on year). This was partly driven by reductions in quantities of metals such as iron and steel (less 10 per cent) and copper (less 6 per cent). See World Trade Organization, 2015, Falling import demand, lower commodity prices push down trade growth prospects, 30 September, available at www.wto.org/english/news_e/pres15_e/pr752_e.htm, accessed 18 January 2016.

[4] The index covers the following subgroups: all food (food, tropical beverages, vegetables, oilseeds and oils); agricultural raw materials; and minerals, ores and metals.

Figure 1
UNCTAD non-oil commodity price index and its major components, January 2009–October 2015
(2000 = 100)



Source: UNCTAD secretariat calculations based on data from UNCTADStat.

5. The UNCTAD all-food price index also declined from 222 points in January 2015 to 198 points in October 2015. Prices for individual food and agricultural products experienced a downturn as a result of high supply and large stocks accumulating over the years. A possible upward price risk in 2016 is El Niño, which could cause abrupt changes in the weather, bearing negative consequences on global agricultural production. However, in the short term, the most likely price scenario for food and agricultural commodities remains a downward trend or stability amid comfortable levels of stocks. However, stock-to-use ratios will have to be monitored carefully, given the projections of adverse impacts of El Niño on many agricultural products.[5]

6. The markets for minerals, ores and metals also exhibited a trend of declining prices, extending into 2015. This was based on a number of factors such as growth deceleration in China and emerging economies; the fragile economic recovery in developed economies such as Japan and the European Union; high production capacity resulting from large investments made during the last decade-long commodity boom; a strong United States dollar and low-cost mining, partly supported by low energy prices.

[5] For example, the Food and Agriculture Organization of the United Nations estimates world stock-to-use ratio for cereals at 25.3 per cent for 2014/2015, compared with 23.6 per cent and 21.8 per cent for 2013/2014 and 2012/2013, respectively. See http://www.fao.org/worldfoodsituation/csdb/en/?fb_locale=zh_HK, accessed 11 January 2016.

7. Fossil fuel markets, including crude oil, coal and natural gas, continued to record low prices in 2015 because of excess supplies, which helped build large inventories amid weakening demand growth. Renewable energy has continued its growth but its share in the global energy mix remains low. Furthermore, if cheap fossil fuels prices persist, the situation could be a challenge for the development of renewables due to their competiveness as sources of energy. This issue persists at a time when world leaders have reached an ambitious agreement for environmentally sustainable growth during the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris from 30 November to 11 December 2015. As argued in the conclusion of this paper, achieving a more environmentally sustainable growth would undoubtedly require supporting the renewable energy sector.

B. Developments in key commodity sectors

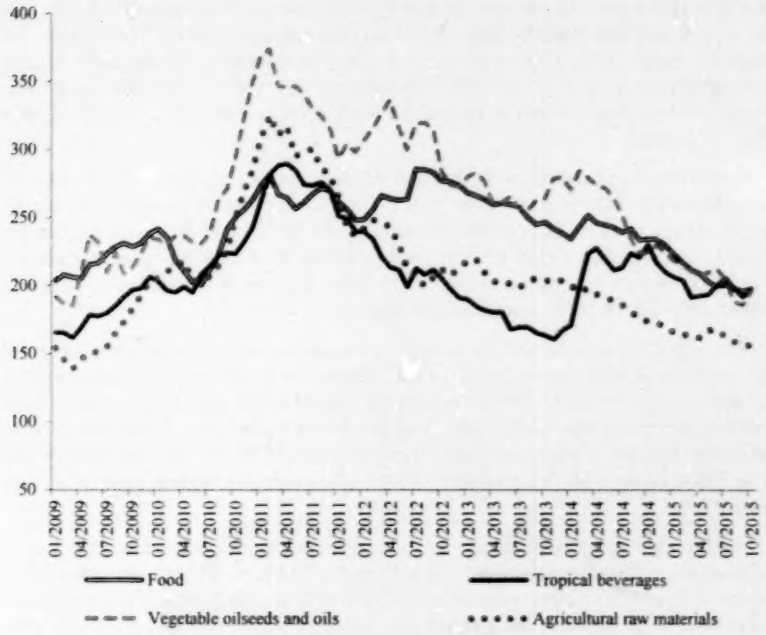
1. Food and agricultural commodities

8. In agricultural food markets, prices generally declined during 2015, owing to good harvests (figure 2). In grain markets, the price of Thai rice (white milled and 5 per cent broken) slid from $410 per ton in January to $360 per ton in October. The latter price is about half its peak of $615 per ton, which was reached in September 2011. According to the International Grains Council, despite the developing El Niño phenomenon, rice production has still benefited from favourable growing conditions. As a result, exports of major countries such as India, Pakistan, Thailand and Viet Nam were stable. The release by the Thai Government of rice stockpiles has also played a role in putting prices under downward pressure. Africa and Asia are the main consumers of rice. Africa imported an estimated 14.6 million tons of rice, while Asia imported about 20.7 million tons of rice in 2015.[6] Asian countries are at the same time key suppliers and consumers of rice, while African countries are mainly importers. Among the major importers of rice in Africa are Côte d'Ivoire and Nigeria. In Asia, suppliers are China, India, Thailand and Viet Nam; the main importers in the region are Indonesia and the Philippines.

[6] International Grains Council, 2014, Five-year global supply and demand projections, available at http://www.igc.int/en/downloads/grainsupdate/igc_5yrprojections2014.pdf, accessed 20 January 2016.

Figure 2

Price indices of selected agricultural commodity groups, January 2009 – October 2015
(2000 = 100)



Source: UNCTAD secretariat calculations based on data from UNCTADStat.

9. The price of wheat (hard red winter No. 2) decreased by 16 per cent (see paragraph 4). This drop was underpinned by increases in global production, mainly driven by China, the European Union, the Russian Federation and Ukraine. For example, in the European Union, production rose from 143.1 million tons in 2013/2014 to 154.1 million tons in 2014/2015. In the Russian Federation, it increased from 52.1 million tons to 59.7 million tons.[7] Similarly, production in Ukraine increased from 22.3 million tons to 24.1 million tons and from 121.9 million tons to 126.2 million tons in China during the same period.[8]

10. Sugar prices also followed a declining trend. The free-on-board price of sugar stowed at Caribbean ports dropped from 15.34 cents per pound in January 2015 to 11.5 cents per pound in August 2015. This was due to a persistent surplus of production over consumption during the last four to five years. The price outlook in the sugar market will be determined by the expected bad weather due to El Niño, which may affect sugar cane plantations in countries such as Brazil and Thailand, and could lead to a price increase. For example, in October 2015, the price of sugar rebounded to nearly 14 cents per pound.

[7] Ibid.
[8] Ibid.

11. The prices of tropical beverages followed divergent paths in 2015. Coffee prices remained relatively high in 2014, driven primarily by a drought in Brazil. Subsequently, however, coffee prices fell as a result of improved weather conditions, strong exports boosted by the weakening of major producing countries' currencies such as the Brazilian real and the Colombian peso, and moderate growth in global demand. In October 2015, the composite indicator price of the International Coffee Organization averaged 118 cents per pound, 32 per cent less than the peak of 173 cents in October 2014. In tea markets, the Mombasa tea price averaged 339 cents per kilogram from January to October 2015, almost 45 per cent higher, compared with the equivalent period of 2014. The price surge was largely driven by reduced output in Kenya, the world's biggest exporter of black tea, as a result of dry weather.

12. Cocoa prices trended upwards, though with short-term swings, from 132.5 cents per pound in January to 145 cents in October 2015. This increase was driven mainly by supply disruptions in Ghana after disappointing harvests, partly due to problems in the application of pesticides and fungicides. Côte d'Ivoire produced about 1.79 million tons of cocoa beans in 2014/2015, up from 1.75 million tons in 2013/2014. Production in Ghana was estimated at 740,000 tons in 2014/2015, down from 897,000 tons in 2013/14.[9]

13. The vegetable oilseed and oil markets followed declining trends, owing to good supply conditions in major producing countries, namely Brazil, Indonesia, Malaysia and the United States of America. In countries such as the United States and Brazil, where a large share of production has been traditionally used to produce biofuel, this activity has become less profitable because of declining crude oil prices. The UNCTAD vegetable oilseeds and oil price index dropped to 196 points in October 2015 from its highest point of 374 in February 2011.

14. With regard to agricultural raw materials, prices of tropical logs, especially sapele from Cameroon, followed a downward trend. They dropped from $407.61 per cubic metre in January 2015 to $393.30 per cubic metre in October 2015. The Tropical Timber Market Report of January 2015 noted that a progressive depletion of the stockpile in Douala Port was an indication of increasing supply, explaining the price decline. Efforts by the Malaysian Government to curb the illicit trade in wood and the Cameroonian plan to ban log exports in January 2016 are expected to push prices upwards. Hence, there could be a reversal in the price trend in the timber market.

15. The price of rubber (TSR No. 20) per ton dropped from $1,697 in January 2015 to $1,473 in October 2015. This represents a 13 per cent decrease. Observers associate this trend with the economic crisis in the European Union, which has reduced households' purchasing power, limiting their capacity to make major expenditures such as buying a car. Despite recovery in some European countries – Belgium, Hungary, Italy, Poland, Romania and Spain, for example – demand for rubber is slow, and the price has declined, despite a slowdown in production due to adverse weather conditions in Malaysia, one of the leading producers.[10] In Asia, particularly in China, one of the main consumers, consumption has also slowed down. Only Japan has shown some signs of recovery in the rubber market.[11]

16. Cotton is one of the rare commodities to have experienced a price increase in 2015, although prices remain low compared with previous years, particularly at their peak of 229.67 cents per pound in March 2011. The Cotlook A index rose from 67.35 cents per pound in January 2015 to 69.03 cents per pound in October 2015. This was a surprising development, since China had started to sell part of its stock that had accumulated over the

[9] International Cocoa Organization, 2015, *Quarterly Bulletin of Cocoa Statistics*, Cocoa Year 2014/2015, Vol. XLI, No. 4.

[10] The Economist Intelligence Unit, April 2015.

[11] The Economist Intelligence Unit, July 2015.

years. Observers feared that by flooding the cotton market with its stocks, China would significantly decrease prices; this has not happened so far. A possible explanation could be that while China has been increasing its supply, demand rose at a higher pace from major consumer countries such as China itself – a supplier and heavy consumer at the same time – India and Pakistan.

2. Minerals, ores and metals

17. Mineral, ore and metal prices are sensitive to various factors: global supplies, which depend mainly on production capacities and mining costs; global demand driven by industrial activities in developed and emerging economies; and geopolitical tensions. More specifically, macroeconomic developments in China, which accounts for almost half of global metal consumption, have had a significant impact on the market for minerals, ores and metals. Furthermore, monetary policy in the United States tends to affect the prices of most minerals and metals, as they are priced in dollars.

18. The UNCTAD minerals, ores and metals price index[12] peaked to nearly 418 points in February 2011, but has on the whole decreased over the following months, with short-term fluctuations. In October 2015, the price index averaged 206 points, half of the peak level of February 2011 (figure 3). The continued falling prices of minerals, ores and metals can be attributed to a number of factors:

(a) Growth deceleration in China and emerging economies;[13]

(b) Fragile economic recovery in developed economies such as the European Union and Japan;

(c) High production capacity resulting from large investments made during the last decade-long commodity boom;

(d) Increasing strength of the United States dollar;

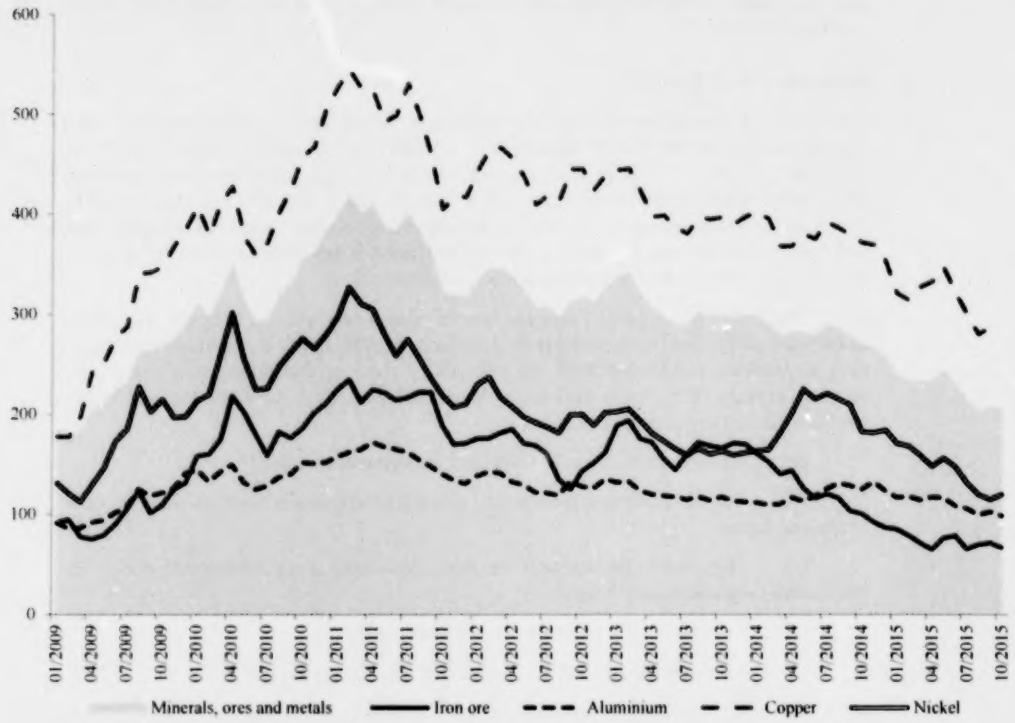
(e) Low-cost mining, partly supported by low energy prices.

19. Moreover, structural economic changes occurring in China, as it moved from investment-led growth to a consumption-driven economy, combined with the country's objective to achieve a less polluting economic model, have put products such as iron ores and steel under downward pressure. By contrast, the expected positive impact of China's economic rebalancing on metals, such as zinc and aluminium, has been subdued to date amid strong supply and the country's slower economic growth relative to the past several years.

[12] Covers copper, aluminium, iron ore, nickel, lead, zinc, tin, phosphate rock, manganese ore and tungsten ore. Gold is not included.

[13] For example, China's merchandise imports decreased by 2.2 per cent in the second quarter of 2015 (year on year). This was partly driven by drops in quantities of metals such as iron and steel (minus 10 per cent) and copper (minus 6 per cent). See www.wto.org/english/news_e/pres15_e/pr752_e.htm, accessed 18 January 2016.

Figure 3
Price indices of selected minerals, ores and metals, January 2009–October 2015
(2000 = 100)



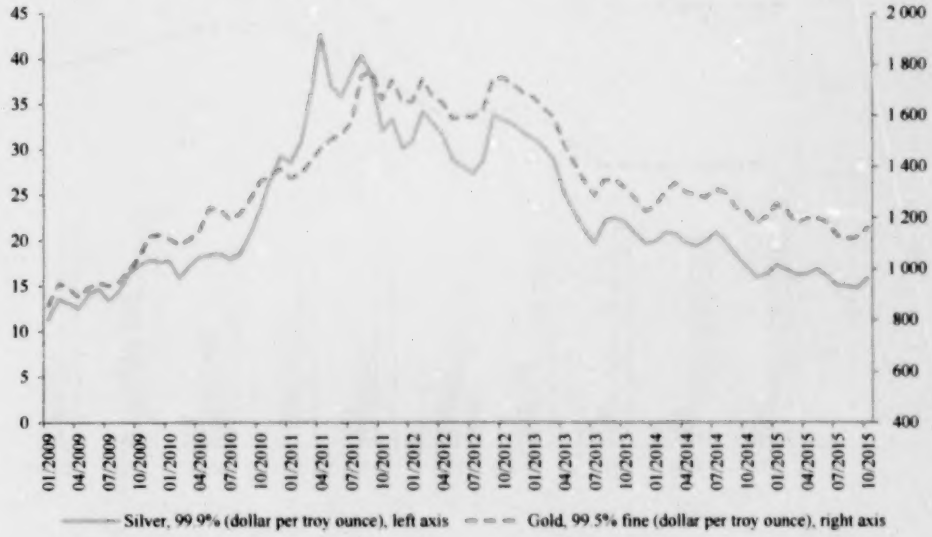
Source: UNCTAD secretariat calculations based on data from UNCTADStat.

20. In specific markets, the price of iron ore, a raw material used for steelmaking, has been declining since its peak in 2011. In October 2015, iron ore prices at the Chinese port of Tianjin averaged $53 per ton, less than a third of its peak of $187 in February 2011. Low iron ore prices are caused by a global glut that is exacerbated by low-cost mining from big producers such as BHP Billiton, Rio Tinto and Vale SA. These occurred at a time when global steel production was recording weak growth, especially in China, which contributed to weighing down global demand for iron ore.

21. Performance of the copper markets was similar to that of global minerals, ores and metals markets. After a peak of $9,867 per ton in February 2011, London Metal Exchange (LME) copper prices have been trending down with short-term fluctuations. For example, in 2015, the price of copper rose from $5,701 to $6,296 per ton between February and May. Thereafter, the price dropped to an average of $5,224 in October, owing to strong supplies amid elevated stocks and slowing global demand, notably from construction and infrastructure sectors in China. Moreover, demand for substitutes, such as relatively lower-priced aluminium, which averaged $1,524 per ton in October 2015, compared with a peak of $2,662 in April 2011, contributed to weighing down demand for copper.

22. For nickel, an ingredient used in the production of stainless steel, prices in 2015 were lower than in the first half of 2014, as buyers accumulated stocks before January 2014 when the export ban by Indonesia came into force.[14] Moreover, China, a big player in the market, was able to partly replace imports from Indonesia with imports from the Philippines, reducing pressure on prices. In October 2015, the LME nickel price averaged $10,341 per ton. In 2016, the price of nickel will most likely depend on market fundamentals, especially the capacity of exporting countries such as the Philippines to supply international markets. An important upward risk factor for nickel prices is significant cutbacks from miners, as current price levels are estimated to be below their breakeven costs.

Figure 4
Nominal prices of gold and silver in dollars per troy ounce, January 2009–October 2015



Source: UNCTAD secretariat calculations based on data from UNCTADStat.

23. Prices of precious metals have also declined, though with short-term swings, and are now at much lower levels than in 2011 and 2012 (figure 4). Silver prices have generally declined from the high levels of over $27 per troy ounce that prevailed between December 2010 and March 2013. In October 2015, the price of silver averaged $16 per troy ounce. Over the same period, the price of gold averaged $1,159 per troy ounce, compared with values of over $1,500 between May 2011 and March 2013. Key driving forces of the continued decline in the prices of silver and gold include slowing global demand, the strengthening United States dollar and the expectation that interest rates will rise in the United States[15] as the macroeconomic situation of the country improves. With regard to gold, sizeable outflows from exchange-traded funds contributed to exacerbating the

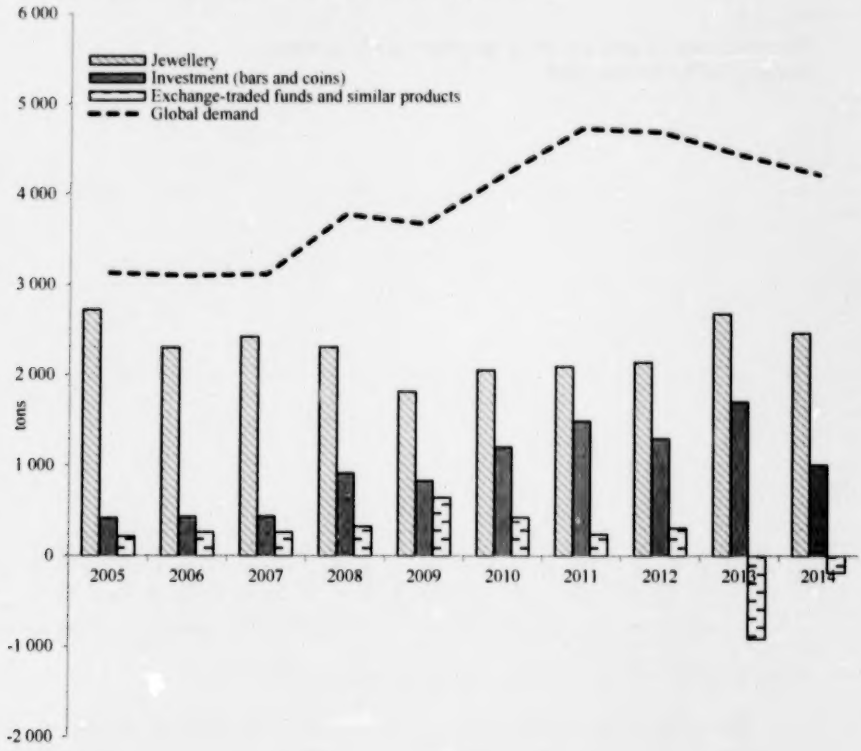
[14] From January 2014, Indonesia, the world's leading nickel producer, placed an export ban on unprocessed nickel ores, a measure designed primarily to encourage domestic processing. However, it spurred supply concerns immediately after it came into force. As a result, between January and July 2014, the LME nickel price per ton increased by 35 per cent, from $14,076 to $19,047.

[15] The United States Federal Reserve Bank increased its interest rate in December 2015.

downward price trend. For example, the outflows were estimated at 916.3 tons and 184.2 tons, respectively, in 2013 and 2014 (figure 5). In the case of silver, weakening demand from the electronic sector as a result of a continued shift toward smaller mobile devices contributed significantly to pushing metal prices down in 2015. [16] Prices of precious metals such as gold and silver are expected to remain sensitive to market fundamentals, financial investments, United States monetary policy and geopolitical tensions.

Figure 5

Global and selected components of gold demand, 2005–2014



Source: UNCTAD secretariat calculations based on data from the World Gold Council, 2015, Gold Demand Trends, Second quarter 2015.

3. Energy

24. For most of 2015, energy prices remained globally under downward pressure, albeit with some upward swings between January and May that resulted mainly from a surge in oil prices relative to their level in the second half of 2014 (figure 6). For example, from a peak of 131 points in June 2014, the World Bank energy price index halved to 63 points in

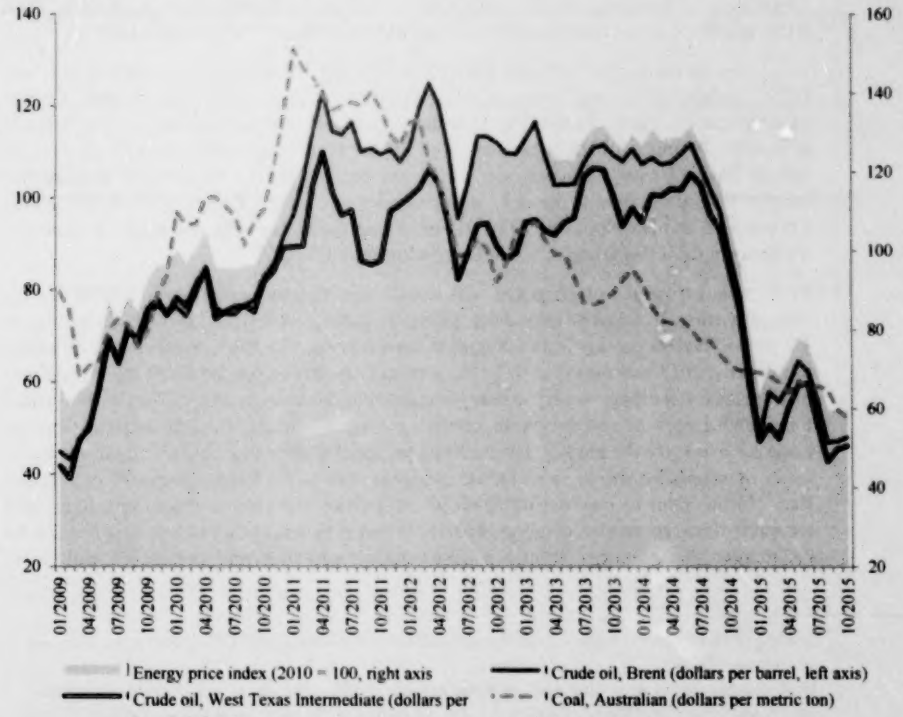
[16] See https://www.silverinstitute.org/site/2015/11/17/thomson-reuters-releases-interim-silver-market-review, accessed 11 February 2016.

January 2015,[17] owing mainly to excess supply associated with the boom in United States shale oil production. Subsequently, producers were forced to rethink their investment strategies, with many of them cancelling, delaying or reducing new investments. This situation, combined with geopolitical tensions in the Middle East and indications of economic recovery in the United States, raised concerns over global energy supply, especially for crude oil. This contributed to driving up prices during the first half of 2015. The energy price index rose by almost 25 per cent from January to 78 points in May 2015. However, the effect of these factors on energy prices was short-lived, as the trend of energy prices reversed, starting in May. By October 2015, the Index had dropped to nearly 60 points. The main reasons for the reversal include continued strong supply from top crude oil producing countries such as the Russian Federation and Saudi Arabia even at lower prices to secure their market shares; expected weaker growth in global demand; and anticipation of rising Iranian oil exports sometime in 2016.[18]

Figure 6

Energy price index and nominal prices of crude oil (Brent), West Texas Intermediate and coal (Australia), January 2009–October 2015

(2010 = 100)



Source: World Bank database.

[17] World Bank, 2015, Commodity markets, available at http://www.worldbank.org/en/research/commodity-markets, accessed 22 January 2016.

[18] In the Oil Market Report of October 2015, the International Energy Agency (IEA) estimated that crude oil production from the Islamic Republic of Iran would reach 3.6 million barrels per day in 2016, compared with 2.9 million barrels per day in 2015. See https://www.iea.org/oilmarketreport/reports/2015/1015/, accessed 1 February 2016.

4. Crude oil

25. The slump in crude oil prices that ran from mid-2014 to early 2015 continued. Between June 2014 and January 2015, the price per barrel for Brent and West Texas Intermediate crude fell respectively from $112 and $105 to $48 and $47. The price slumps were driven primarily by excess supply resulting from strong production from members and non-members of the Organization of Petroleum Exporting Countries (OPEC), as well as considerable increase in shale oil output, especially in the United States, in a context of slow demand growth. Moreover, the accumulation of record short positions by financial speculators is likely to have exacerbated the downward trend and substantially added to volatility of oil prices.[19] Thereafter, the downward trend in crude oil prices reversed from February until mid-2015. In May 2015, Brent averaged $65 per barrel, whereas West Texas Intermediate recorded roughly $60 per barrel in June 2015. This price surge was associated with many factors. These included an extremely cold 2014/2015 winter in the northern hemisphere, supply concerns,[20] signs of improvement in the United States economy and persisting geopolitical tensions in the Middle East. Also, demand from China remained strong in 2015 as the country continued to build its strategic reserves.[21] However, continuing strong supply and high levels of stocks amid lacklustre demand growth contributed to reversing the price trends from their peaks in mid-2015. In October 2015, Brent and West Texas Intermediate averaged $48 and $46 per barrel, respectively.

26. Strong oil supply is being underpinned by high production from OPEC and non-OPEC member countries,[22] even at low prices, as oil exporters primarily seek ways to preserve market shares. In the first three quarters of 2015, global oil supply was estimated at roughly 96 million barrels per day, with OPEC producing nearly 40 per cent, and the former Soviet Union, 14.5 per cent. Crude oil demand during the same period reached roughly 94 million barrels per day, with countries outside the Organization for Economic Cooperation and Development (OECD) accounting for 51 per cent, and nearly a quarter of the demand from this group of countries coming from China.[23]

27. It is expected that oil prices will remain sensitive to market developments. At the time of writing, IEA had projected that global demand growth would slow down in 2016 to 1.2 million barrels per day from 1.8 million barrels per day in 2015. According to its supply projections, 2015 was expected to be the second consecutive year of declining investments in oil production capacity, a trend that is expected to continue in 2016. This situation could force higher-cost oil producers in countries such as Brazil, Canada and the Russian Federation to leave the market. The resulting potential decline in global oil output should be offset by supply growth in some OPEC countries such as the Islamic Republic of Iran and Iraq.[24] In the short to medium term, oil prices are not expected to record any significant rebounds if current market conditions persist – that is to say, if excess supply is boosted by the market share strategy from top oil-producing countries and is coupled with weak

[19] See http://www.reuters.com/article/us-hedgefunds-oil-kemp-idUSKBN0TX24120151215, accessed 11 February 2016.

[20] High-cost producers were squeezed out of the markets, while others cancelled, delayed or reduced investments in new projects, following the low prices prevailing throughout the second half of 2014. Since 2014, the continuing decline in oil prices has caused delays in project implementation estimated at $400 billion of capital expenditure in Angola, Canada, Kazakhstan, Mozambique, Nigeria and the Gulf of Mexico. This is equivalent to about 27 billion barrels of oil per day (*Financial Times*, 2016, Delayed oil projects total nears $400bn, 14 January).

[21] Natixis, 2015, Commodities Report: Global Oil Market Update, No. 8, 27 November.

[22] Examples of OPEC countries are Iraq, Saudi Arabia and the United Arab Emirates; non-OPEC countries include Canada, the Russian Federation and the United States.

[23] IEA, 2015, Oil Market Report, October.

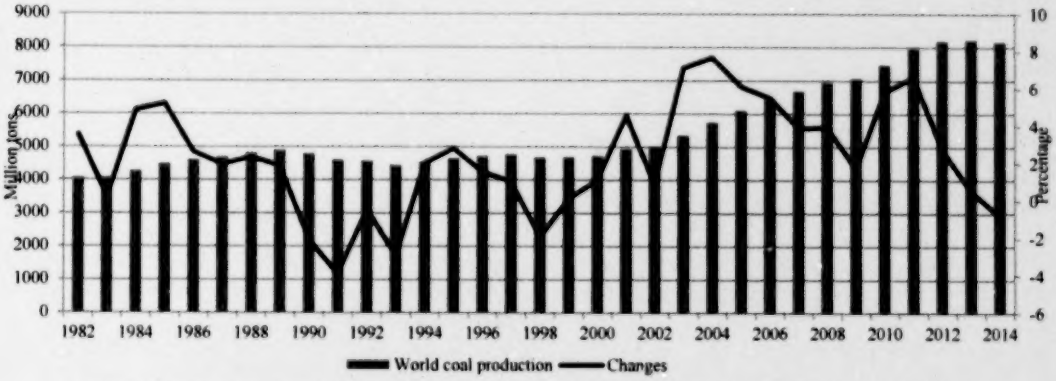
[24] IEA, 2015, *World Energy Outlook 2015*, Paris.

demand growth. For example, the *World Energy Outlook 2015* forecasts oil prices to remain at about $50–$60 per barrel until 2020.

5. Coal

28. After crude oil, coal is the second-largest source of primary energy, representing roughly 30 per cent of global primary energy produced. It is mostly used for power generation, producing more than 40 per cent of worldwide electricity. Coal is abundant, cheap and easy to trade, but carbon intensive and therefore produces adverse climate effects. Its price has plummeted since its peak in 2011. For example, Australian thermal coal, the main benchmark for the Asian market, traded at nearly $52 per ton in October 2015, less than half of its highest level ($132 per ton) in January 2011. Current low coal prices and environmental concerns have put pressure on producers to reduce output. In 2014, for the first year since 1999, global coal production decreased, compared with 2013 (figure 7).

Figure 7
World coal production levels and annual changes, 1982–2014
(Percentage)



Source: UNCTAD secretariat calculations based on data from *BP Statistical Review of World Energy 2015*.

29. In the coming years, global ambitions for a less polluting economic growth process consonant with the Paris Agreement (2015), as well as commitments of industrialized economies to phase out carbon emissions by the end of the century, will maintain downward pressure on coal demand and production. However, the situation is uncertain for most developing countries, for which coal is one of the most affordable sources of energy. Lowering coal use and demand in these countries will be a major challenge unless they receive adequate compensatory support such as subsidies and conducive regulatory frameworks.

6. Natural gas

30. Natural gas prices vary considerably between the different pricing regions of the world, as shown in figure 8.[25] In the United States, Henry Hub natural gas spot prices

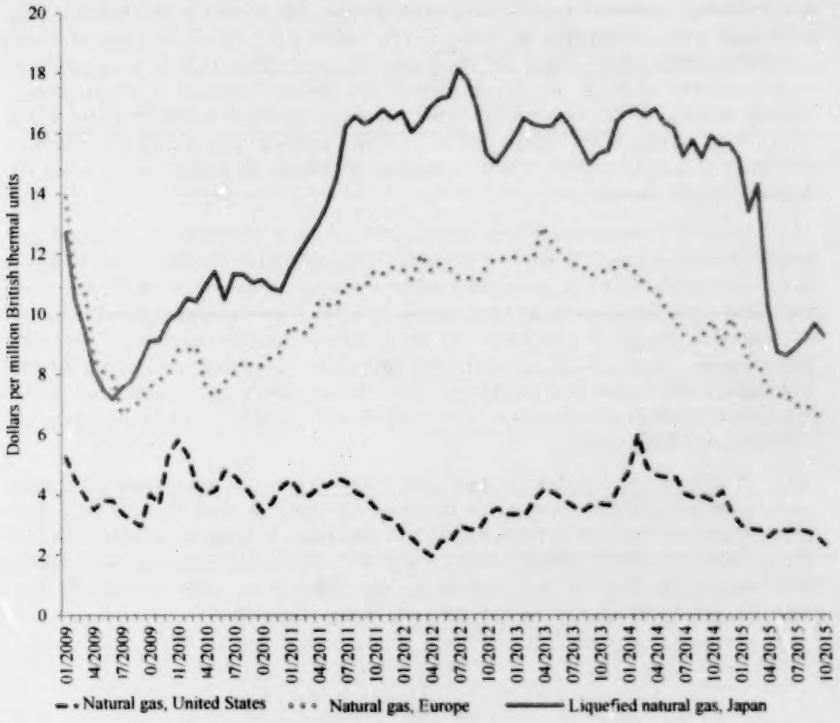
[25] In the United States, prices result from market fundamentals. In Asia, gas prices are derived from contracts on purchases of gas but they take into account oil prices. In Europe, the pricing system used to be similar to the Asian system but it has changed recently to supply-and-demand pricing (TD/B/C.I/MEM.2/22).

remained below $3 per million British thermal units (mBtu) from January to October 2015. This is very low compared with the peak of nearly $6 per mBtu recorded in February 2014. This low price stemmed from weak demand, low oil prices and high stocks. For example, natural gas production in the United States reached a record level of 3,929 billion cubic feet at the end of October 2015 which is above the five-year average (2010–2014) of 3,782 billion cubic feet.[26]

31. The price of natural gas at the spot-traded gas market of the National Balancing Point (United Kingdom of Great Britain and Northern Ireland), which is used to benchmark the price in the United Kingdom and continental Europe, has also been in decline. It reached $6.43 per mBtu in October 2015, compared with nearly $10.00 at the end of 2014. A similar downward trend, if not more pronounced, was also observed for prices of Japan liquefied natural gas, which are linked to oil-indexed contracts. These prices fell from $15.00 per mBtu in January 2015 to $9.00 in October 2015. The outlook for natural gas is more likely on the downside, as large inventories across the world are associated with strong supply and weak demand growth, as well as low prices for other competing energy products.

[26] United States Energy Information Agency, 2015, Natural gas weekly update, 12 November, available at http://www.eia.gov/naturalgas/weekly/archive/2015/11_12/index.cfm, accessed 22 January 2016.

Figure 8
Nominal prices for natural gas from the United States and Europe, and liquefied natural gas from Japan
(Dollars per million British thermal units)



Source: World Bank, Commodity markets, available at http://www.worldbank.org/en/research/commodity-markets, accessed 15 December 2015.

7. Renewable energy

32. Developments in renewable energy markets are driven by factors such as security, local or global pollution and decarbonization objectives. Changes in fossil fuel markets also affect those of renewable energy because of their competitiveness as sources of energy. For example, oil and biofuel may compete for transport and heating sectors. Hence, renewables such as biofuels are particularly competitive during periods of high and volatile fossil fuel prices. As a result, the current context of depressed energy prices raises concerns about the competitiveness of renewable energy sources. However, topical issues, including environmental concerns, energy security and efforts to enhance cost-competitiveness of renewables, should contribute to supporting their development. At a time when the role of sustainable energy systems has become central to debates on sustainable development, as evidenced by the recently adopted 2030 Agenda for Sustainable Development and the Paris Agreement, policies to support the development of renewable energy are being debated at the national, regional and international levels.

33. In 2014, consumption growth remained strong This has contributed to the robust growth of renewable energy sources: in 2014, they accounted for almost half of the world's

new power generation capacity and are currently the second largest source of electricity after coal.[27] This momentum should continue, and renewables are expected to be the largest source of net addition to power capacity by 2020.[28] The growth in renewable energy can be partially explained by its expansion in emerging and developing economies, owing to several factors. For example, China's energy needs, coupled with its objective to achieve a less polluting economic model, have been driving the country's renewable energy production and consumption. In India, energy demand, led by expectations of strong economic growth, has sustained the development of renewables such as solar and wind energy systems. In Brazil, the development of the renewable energy sector has been a response to the country's vulnerability to adverse weather patterns such as droughts, which often hit the country's hydropower sector. In other countries, such as Ethiopia, Morocco and South Africa, the need to reduce dependence on volatile oil markets is supporting the renewable energy sector.

34. Progress in renewable energy sources has also been facilitated by enhanced cost competitiveness – including that of renewable power generation brought by technological advances – and significant policy support, which has attracted investments in the sector and has further made it possible to attain economies of scale. The decreasing cost of production of renewable energy is illustrated by the levelized cost of electricity [29] of solar photovoltaics, which halved between 2010 and 2014, according to a report by the International Renewable Energy Agency.[30] The report stated that biomass for power, hydropower, geothermal and onshore wind could provide competitive electricity, compared with fossil fuel-related energy.

35. In terms of market share of renewable energy, hydropower has been the leading source of energy, although its share has decreased over the past years, from 91 per cent in 2000 to nearly 69 per cent in 2014. Meanwhile, the shares of wind and biofuel increased sharply, while those of geothermal, biomass and other renewables remain relatively stable. Solar power generation has also been on the rise, although its share remains relatively small, compared with other sources of renewable energy (figure 9).

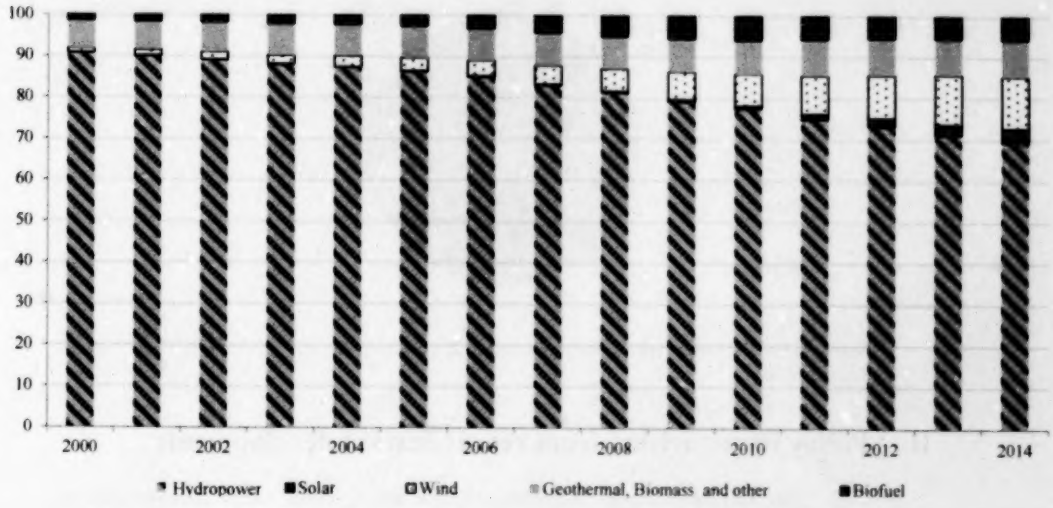
[27] IEA, 2015, *Renewable Energy Medium-Term Market Report 2015*, Paris, available at https://www.iea.org/Textbase/npsum/MTrenew2015sum.pdf, accessed 18 January 2016.

[28] Ibid.

[29] Levelized cost of electricity is a summary measure of the overall competiveness of different generating technologies. It represents the per-kilowatt-hour cost of building and operating a generating plant over an assumed financial life and duty. See https://www.eia.gov/forecasts/aeo/electricity_generation.cfm, accessed 21 January 2016.

[30] International Renewable Energy Agency, 2015, *Renewable Power Generation Costs in 2014*, available at http://www.irena.org/menu/index.aspx?mnu=Subcat&PriMenuID=36&CatID=141&SubcatID=494, accessed 21 January 2016.

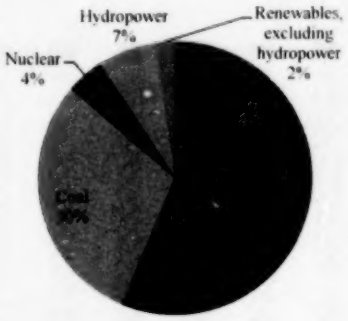
Figure 9
World renewable energy consumption by type, 2000–2014
(Percentage)



Source: UNCTAD secretariat calculations based on data from the *BP Statistical Review of World Energy 2015*.

36. Notwithstanding the progress made in promoting renewable energy sources, their share in the global energy mix is still small. For example, the share of renewables, including hydropower, represented about 9 per cent of the global primary energy mix in 2014 (figure 10). This implies that the future of renewable energy will continue to depend on supportive polices in terms of subsidies to the industry, as well as a strong legal framework in the face of today's challenging environment, characterized by low fossil fuel prices. This is critical not only in addressing climate change concerns but also because renewables have the potential to create economic opportunities in terms of investments and job creation. Moreover, compared with fossil fuel energy, renewable energy can easily contribute to making energy available to the world's poorest communities, in particular in low and middle-income countries. Furthermore, promoting renewable energy should be considered as a way for net oil-importing or energy-insecure countries to reduce their dependence on highly polluted fossil fuel markets consonant with the Paris Agreement.

Figure 10
Global energy mix, 2014



Source: UNCTAD secretariat calculations based on data from the *BP Statistical Review of World Energy 2015*.

II. Policy issues arising from recent market developments

37. This section discusses some major issues arising from recent developments in commodity markets and makes some policy suggestions about the way forward. This discussion is of particular relevance to commodity-dependent developing countries at a time when implementation of the 2030 Agenda for Sustainable Development has several implications for the commodity sector (box).

Sustainable Development Goals: Implications for commodity-dependent developing countries

On 25 September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development.[31] Achieving the 17 goals and 169 targets of this Agenda directly through commodities sector development, or indirectly through sectoral linkages, would require relevant policy strategies. This box explores some of the strategies that can help commodity-dependent developing countries realize the full potential of their commodity sectors and contribute to achieving the Sustainable Development Goals at a time when depressed commodities prices are undermining the economic performance of these countries.

Goal 1 (poverty eradication) and its targets do not explicitly mention commodities but are linked to developments in the commodities sectors of commodity-dependent developing countries. The main argument is that these countries depend heavily on commodities, for example, in terms of government expenditures, employment and household incomes. In particular, increasing employment and household incomes are important channels of poverty eradication. Furthermore, fostering the development of agriculture through supportive policies for the smallholder farmers who produce most of the food and agricultural exports in those countries will contribute to achieving not only Goal 1 but Goal 2 (food security) as well.

Goal 5, target 5.a, calls for reforms that provide equal rights to women and men, including access to natural resources. To close the gender gap in commodity-dependent

[31] See A/RES/70/1.

developing countries, policies could, for instance, give priority to women in resource allocation or at least guarantee equal opportunities to women and men in accessing resources such as land, finance and technologies. For example, through its land registration programme, Rwanda has made progress in this area by providing land titles to women who otherwise had no ownership claim on the land they had been working on.

Achieving Goal 7 (affordable and sustainable energy) implies fostering the development of accessible renewable sources of energy that will in turn help combat climate change (Goal 13). As discussed in this paper, the depressed fossil fuel markets may hamper efforts to embark on the energy transition, particularly in developing economies. For these economies, providing supportive policies to their renewable energy sector, including better access to finance and relevant technologies; building an enabling legal environment; and providing subsidies to the renewable industry sector, are possible actions that could help further the achievement of Goal 7. This will also generate economic opportunities in the form of investments and job creation, leading to spillover effects on other Sustainable Development Goals, in particular Goals 1 (poverty eradication), 3 (well-being) and 8 (decent work for all).

For commodity-dependent developing countries, the critical importance of Goal 9 and target 9.b, which refers to the need for industrial diversification and value addition, including in the commodities sector, cannot be over-emphasized. Achieving these objectives will require structural transformation in resource-rich countries moving from their strong dependence on primary commodity exports to the production of manufactured goods and higher-value services.

Heavily commodity-dependent developing countries could draw lessons from the diversity of experiences across developing countries that have managed to diversify their economies. Brazil, Chile, China, Indonesia, Malaysia, South Africa, and Thailand, for example, have successfully pursued a range of diversification and industrialization strategies that have taken account of their country-specific circumstances and the prevailing international economic environment. These strategies have resulted in a growing share of manufactures in these countries' exports and/or a wider range of commodities produced.

Target 10.1, which aims at increasing revenues for the bottom 40 per cent of the population, could be achieved through equitable and efficient investments in job creation in commodity-dependent developing countries.

Goal 12, target 12.2, calls for the achievement by 2030 of the sustainable management and efficient use of natural resources. In this area, Botswana and Chile offer a model for best practices among developing and emerging economies.

All these efforts towards achieving long-term sustainable development, particularly in commodity-dependent developing countries, will require effective policy collaboration at the national, regional and global levels. As such, international policy coordination will be critical.

A. Supporting vulnerable producers to help them cope with declining agricultural commodity markets

38. As highlighted in this paper, food and agricultural commodity prices have been experiencing a downward trend for several years now. These developments are detrimental to producers, especially small-scale farmers, who are the backbone of agricultural food and non-food production in developing countries.[32] The small scale of their activities makes them vulnerable to depressed prices, which erode their economic viability.

39. To mitigate the negative effects of low prices on these farmers, commodity-dependent developing countries should implement measures that would enable them to reduce production costs so that they remain competitive in agricultural commodity markets. In particular, they need access to low-cost productive assets, such as land; agricultural inputs, such as fertilizers and seeds; and affordable credit. Moreover, assistance should be extended to small farmers to ensure that they have the necessary skills and ability to benefit from market participation. For these farmers, assistance should help them become sustainable small businesses. This should be considered a way of addressing social problems, particularly poverty and inequality, which keep large parts of populations at the margin of economic progress.[33] This is of particular importance as the world community starts implementing the 2030 Agenda for Sustainable Development centred on the Sustainable Development Goals.

40. Goal 2 of the 2030 Agenda for Sustainable Development is to achieve food security and improved nutrition. Commodity-dependent developing countries are advised to devote more policy attention and resources to the agricultural sector. Achieving such objectives will also require particular attention this year, considering the threats linked to El Niño. According to the Food and Agriculture Organization of the United Nations, 25 per cent of all damage caused during natural disasters such as El Niño is in the agricultural sector. El Niño will exacerbate the frequency and impact of floods, heavy rains and droughts from end of 2015 to early 2016 and is expected to cause more damage to agricultural production than in 1997–1998.[34]

B. Building a favourable policy environment to cope with low commodities prices in the extractive industries

41. In extractive industries, low prices of almost all commodities, from minerals and metals to fossil fuels, have divergent implications for commodity-dependent developing countries, depending on whether they are net importers or net exporters of these commodities. For example, the dramatic drop in crude oil prices since mid-2014 has benefited net oil importers, such as Ethiopia, India, Kenya and South Africa, by lowering their import bills. [35]

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[32] The Food and Agriculture Organization of the United Nations estimates that small farmers provide up to 80 percent of the food supply in Asia and sub-Saharan Africa. See http://www.fao.org/fileadmin/templates/nr/sustainability_pathways/docs/Factsheet_SMALLHOLDERS.pdf, accessed 19 January 2016.

[33] For detailed policy measures, see UNCTAD, 2015, *Commodities and Development Report 2015: Smallholder Farmers and Sustainable Commodity Development*, New York and Geneva.

[34] Food and Agriculture Organization of the United Nations, 2016, 2015–2016 El Niño: Early action and response for agriculture, food security and nutrition, Working draft, 2 February, Rome.

[35] H Zhenbo et al., 2015, The oil price shock of 2014, Working Paper, Overseas Development Institute, London; Natixis Oil Review 2015.

42. Conversely, commodity-dependent developing countries have been seriously affected by the sharp decline in other commodities prices. This effect has manifested itself in the form of macroeconomic impacts, including worsening fiscal deficits, currency depreciations and increasing sovereign risk.[36] For those with high levels of external debt, the risk of default – albeit still relatively low – will increase if commodities prices continue their decline. The price slumps have also been particularly damaging in countries where Governments seem to have poorly anticipated the reversal of the price trend after almost a decade-long boom. For example, according to estimates by the Governor of the Central Bank of Ghana, the drop in the price of gold led to a loss of more than $2 billion in Government revenue between 2012 and 2015.[37] In Algeria and Saudi Arabia, high fiscal breakeven oil prices of $129.8 per barrel and $111.3 per barrel, respectively, in 2014,[38] relative to low oil prices, have forced these countries to cut spending or draw down their reserves to cover shortfalls in Government revenues.

43. The pressure of declining commodity markets on commodity-dependent developing countries calls for strong and effective policy actions. The current situation should provide an opportunity for deeper reflection on policy orientation in which these countries could reduce their dependence on a limited number of commodities. Lessons could be learned from examples of countries that have successfully diversified their economies. For example, Malaysia has successfully diversified its economy both vertically and into non-primary-commodity-driven sectors. The country has effectively moved away from its historical dependence on agriculture and mining products to processing of crops such as palm oil and rubber and to manufacturing of electrical and electronic products.[39] It has invested in increasing value addition in the palm oil sector through research in downstream technologies including through Malaysia Palm Oil Board and universities. Malaysia has also prioritized the implementation of its industrial policy focused on an export-led manufacturing sector. As a result, since the early 2000s, manufactured goods have represented on average about 80 percent of the country's exports.[40] This is even more crucial at a time when the international community is debating on how to attain the Sustainable Development Goals, which underscore the imperative of achieving inclusive and sustainable economic growth and development.

44. In the short and medium terms, improvement in resource allocation, privileging investment in productive sectors rather than consumption, could be a relevant response to the current drop in commodity revenues. Furthermore, being more cautious or less optimistic with respect to the outlook of commodities prices when preparing budgets would help prevent situations where countries need to deal with deep budget deficits when commodities prices suddenly decline. The need to adopt long-term strategies that would help commodity-dependent developing countries build and strengthen their resilience to commodities price swings cannot be overemphasized. For example, investing in the development of their productive capacities and/or saving in good times to be able to ride out the bad times when the prices decline, would make sense. Furthermore, vulnerable commodity-dependent developing countries may need access to international safety-net

[36] In 2015, the currencies of many resource-rich countries, including the Brazilian real, the Colombian peso, the Zambian kwacha, the Angolan kwanza and the Nigerian naira, recorded some of their worst depreciations against the United States dollar in several years.

[37] International Monetary Fund (IMF) Survey Magazine, available at http://www.imf.org/external/pubs/ft/survey/so/2015/POL102015A.htm, accessed 19 January 2016.

[38] IMF, 2015, Regional Economic Outlook Update: Middle East and Central Asia Department, Statistical Appendix, May, available at http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/mreo0515.htm, accessed 22 January 2016.

[39] A Noh, 2014, Historical institutionalism and economic diversification: The case of Malaysia, *Asian Social Science*, 10(9): 40.

[40] See http://www.matrade.gov.my, accessed 11 February 2016.

programmes provided by international financial institutions and donors through various instruments such as emergency grant funding and loans.[41]

45. Falling commodities prices are also weighing down on the corporate sector with implications on job and investment cuts in commodity-dependent developing countries. Governments of resource-rich countries would benefit from improving their investment environments to attract domestic and foreign investors. For example, helping small and medium-sized enterprises to access finance could boost investment and job creation.

46. In the long term, the need for policies, including economic and fiscal diversification to reduce countries' exposure to the cyclicality of commodity markets, cannot be overstated. Diversification strategies, such as vertical diversification and non-commodity-led growth, could strengthen the resilience of commodity-dependent developing countries to shocks by enabling them to derive their revenues from various sources. These strategies can also help reduce their exposure to the negative effects of unfavourable secular terms of trade (Prebisch-Singer hypothesis).[42]

C. Devising supportive policies for an environmentally sustainable development

47. As discussed earlier, the current context of plummeting prices for fossil fuels has raised concerns about the competitiveness of less polluting sources of energy, including renewable energy, at a time when the critical importance of achieving sustainable and less polluting economic growth is being globally acknowledged. If prices of fossil fuels continue to fall or remain depressed for a long period, the situation could threaten the development of renewable energy; this might in turn compromise the achievement of the Sustainable Development Goals. For example, in late 2015, IEA suggested that crude oil prices hovering around $50 a barrel until the end of the current decade would hold back the development of electric cars and biofuels production that are contributing to efforts aiming to curb carbon emissions. It estimated that about $800 billion of efficiency improvements in cars, trucks and airplanes would be lost under these circumstances.[43] These alarming prospects for renewables mean that supportive policies, including access to finance, improved technologies, a stronger legal environment and subsidies, would need to continue supporting the development of the renewable energy sector.

48. Furthermore, in the face of current declining energy markets, moving away from high polluting fossil fuels such as coal may be a challenging step for most developing countries. For these countries to make the required transition to a less polluting source of energy, mobilizing resources, including finance, is crucial. However, even with such support, not all of these countries will be able to move away from coal. It is therefore vital, while promoting less polluting sources of energy, to also consider investing in cleaner coal technologies. For example, high-efficiency, low-emissions technologies and carbon capture, use, and storage could help bring about significant reductions in emissions from coal-fired power generation.

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[41] A recurrent criticism is that the mechanisms put in place by these financial institutions are procyclical, which raise issues of availability and suitability.

[42] These forms of diversification require an enabling environment that fosters investment and human capital development. See, for example, MR Agosin, R Alvarez and C Bravo-Ortega, 2012, Determinants of export diversification around the world: 1962–2000, *The World Economy*, 35(3), 295–315.

[43] IEA, 2015, *World Energy Outlook 2015*.

49. In addition, faster development of renewable energy sources requires support from government policies. According to a recent OECD report,[44] government subsidies to consumption and production of fossil fuels, such as coal and oil, amount to $600 billion a year, a third of which is attributed to developed and emerging economies. In contrast, Governments spend only $112 billion per year supporting clean energy. With regard to fiscal incentives, the report indicates that about 85 percent of coal used for heating and industrial processes in OECD and emerging countries is untaxed, despite it being the most polluting of all energy sources. Similar if not bolder incentives are needed for renewables.

[44] OECD, 2015, *OECD Companion to the Inventory of Support Measures for Fossil Fuels 2015*, Paris.

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Item 4 of the provisional agenda

Review of UNCTAD efforts to strengthen commodity production in commodity-dependent developing countries and improve food security and export competitiveness in light of the post-2015 Sustainable Development Goals

Note by the UNCTAD secretariat

Executive summary

This note provides an overview of UNCTAD activities that are of benefit to commodity-dependent developing countries (CDDCs) in light of the post-2015 Sustainable Development Goals. The key message is that commodity-based development is at a crossroads. The current commodity bust offers an opportunity for CDDCs to move towards faster implementation of certain policy recommendations of UNCTAD, in particular the need for structural transformation. To take advantage of emerging opportunities in the global trading environment, UNCTAD reasserts the need for CDDCs to accelerate the process of moving up commodity value chains and maximizing the development linkages of the commodity sector. In doing so, CDDCs need to seize opportunities in the emerging global environment that includes World Trade Organization ministerial decisions on agricultural subsidies and cotton, adopt a climate-smart development agenda and embed science, technology and innovation in all areas.

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Introduction

1. Commodity dependence remains a central concern for most developing countries. UNCTAD classifies a developing country as a CDDC when its commodity export revenues contribute to more than 60 per cent of its total merchandise export earnings.[1] Based on this definition, there were 89 CDDCs in 2013-2014. This number has not changed drastically over the past years. Commodities accounted for more than 80 per cent of the export earnings of 62 of these economies, and they are thus considered extremely commodity dependent. Half of these latter economies are in Africa.

2. This note provides an overview of UNCTAD efforts in 2013–2015 to assist CDDCs, in accordance with the terms of reference of the Multi-year Expert Meeting on Commodities and Development. Chapter I highlights the core activities of the Special Unit on Commodities. Chapter II describes the effect of recent commodity market trends on key macroeconomic variables in CDDCs. Chapter III highlights enduring policy lessons for CDDCs. Chapter IV underlines selected issues of relevance to CDDCs.

I. Core support of UNCTAD to commodity-dependent developing countries in 2015

3. The Special Unit on Commodities was established in 2008 to continue the long-standing tradition of UNCTAD of supporting CDDCs along its three pillars of work, namely research and analysis, consensus-building and technical cooperation. This chapter describes some of the Unit's core activities in 2015 along these lines. More detailed information on the Unit's work and UNCTAD activities and products of relevance to CDDCs are provided throughout this note.

4. With regard to research, the Special Unit on Commodities produced the following two biennual reports: *Commodities and Development Report 2015: Smallholder Farmers and Sustainable Commodity Development* and *State of Commodity Dependence 2014*. Both reports proved to have a high level of political and wider relevance, particularly given the major international development-related events that took place in 2015.

5. Preliminary findings and key policy recommendations from *Commodities and Development Report 2015* were disseminated at key events and meetings throughout 2015 (see box 1). The report was launched as part of UNCTAD events organized on the margins of the Tenth Ministerial Conference of the World Trade Organization, held in Nairobi in December 2015. The Conference's decisions on agricultural products and market access for cotton confirmed political will regarding two of the report's key policy recommendations.[2] Similarly, one of the key messages of the report, regarding the central role smallholders may play in a more environmentally sustainable development agenda, found resonance in light of the historic agreement reached at the twenty-first Conference of the Parties of the United Nations Framework Convention on Climate Change in December 2015.

[1] For a full explication of the methodology, see UNCTAD, 2012, *The State of Commodity Dependence 2012* (New York and Geneva, United Nations publication).

[2] The relevance of these decisions for CDDCs is discussed in chapter IV.

Box 1. Dissemination of *Commodities and Development Report 2015*

The report was launched in December 2015. Selected findings from the report had been previously disseminated to policymakers, international development agencies, financing institutions, farmer organizations and civil society representatives, at a workshop organized by the Trade and Markets Division of the Food and Agriculture Organization of the United Nations, held in Rome in October 2014, and at the following events in 2015:

1. Tenth anniversary of European Union-Africa Cotton Partnership event, organized by European Commission and Government of Benin (Cotonou, Benin, March)
2. Senior Policy Seminar of African Economic Research Consortium (Maputo, March)
3. Inter-agency meeting of Zero Hunger Challenge (Milan, Italy, July)
4. High-level seminar on agribusiness investments in partnership with farmer organizations in African, Caribbean and Pacific countries, organized by European Commission (Milan, Italy, October)
5. Regional conference on promoting regional agricultural trade and value chains for 2025, organized by New Partnership for Africa's Development and Economic Community of Central African States with support from Technical Centre for Agricultural and Rural Cooperation (Malabo, November)

Finally, the report was discussed and endorsed by a panel composed of five civil society and private sector representatives, held in Geneva, Switzerland in December 2015.

6. The wide variety of institutions and stakeholders in the commodity community who have been referring to *State of Commodity Dependence 2014* since its publication have confirmed its position as the reference publication offering a comprehensive update on commodity dependence.[3]

7. As in previous years, the Special Unit on Commodities contributed to the *World Economic Situation and Prospects* report of the United Nations and the report of the United Nations Secretary-General on world commodity trends and prospects. Both reports provide up-to-date information on the latest developments in commodity markets.

8. Throughout 2015, UNCTAD continued to provide substantive support to the United Nations High-Level Task Force on Global Food and Nutrition Security and the Zero Hunger Challenge initiative of the United Nations Secretary-General. Established in 2008, in the aftermath of the food crisis, the High-Level Task Force has developed a comprehensive framework for action, based on a twin-track approach, which seeks to generate concerted responses that address the immediate needs of vulnerable populations. In addition, it aims to build the long-term resilience of such vulnerable groups. With particular relevance to this latter objective, the Special Unit on Commodities co-chairs Zero Hunger Challenge Working Group 3: All Food Systems Are Sustainable, in close collaboration with the Division on International Trade and Commodities. The compendium of all working group contributions was finalized in 2015.

9. With regard to consensus-building, the Special Unit on Commodities organized two key meetings in Geneva, the seventh session of the Multi-year Expert Meeting on Commodities and Development and the sixth Global Commodities Forum. Synergies between the two meetings allowed experts and policymakers to discuss recent developments in commodity markets and share country experiences of policy options for

[3] For example, on 12 August, *The Economist* published a series of maps based on the report (see http://www.economist.com/blogs/graphicdetail/2015/08/commodity-dependency) and on 29 September, Reuters referred to it in an analysis of the commodity market (see http://www.reuters.com/article/commodities-prices-supercycle-kemp-idUSL5N11Z2RD20150929).

addressing commodity price volatility at national, regional and international levels. The major features of the Forum are highlighted in box 2.

Box 2. Global Commodities Forum: Policy options for commodity-based development

The annual Global Commodities Forum, organized by the Special Unit on Commodities, is a free public event that attracts participants from across the entire commodity value chain to debate critical development-oriented topics related to commodities. The Forum helps frame international policy discussions on commodities and development issues. One of its key achievements has been its attraction to private sector companies, who participate in discussions on how to address development challenges in commodity-based economies.

The theme of the sixth Forum was "Trade in commodities: Challenges and opportunities". Topics discussed included the implications of the significant shifts in commodity markets in 2014 – especially the fall in oil prices – for resource-rich developing countries, as well as for other stakeholders in the commodity value chain.

Key achievements of the Forum over the years include promoting the need for a broad recommitment to agricultural and rural development, engaging with commodity-trading companies in rethinking their business practices in developing countries, from efficient transactions to equitable relationships, and establishing a Working Group on Commodities Governance, at the recommendation of the fourth Forum, which was tasked with elaborating recommendations for improving transparency and accountability in the commodity value chain.

10. In October 2015, UNCTAD hosted the United Nations Conference for the Negotiation of a Successor Agreement to the International Agreement on Olive Oil and Table Olives, 2005. The Conference led to the successful adoption of a new agreement, expected to come into effect in January 2017. UNCTAD also hosted the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development, an annual meeting that fosters dialogue between member State Governments, mining companies and industry associations and aims at coordinated action in strengthening good governance in the mineral resources sector.

11. The Special Unit on Commodities helped convene the Seventeenth Africa Oil, Gas and Mines Conference and Exhibition, held in Khartoum in November 2015. The theme of the Conference was sustainable job creation. As did previous events, the Conference included the participation of high-level policymakers, including ministers and senior representatives from the private sector, who discussed specific challenges related to extractive industries.

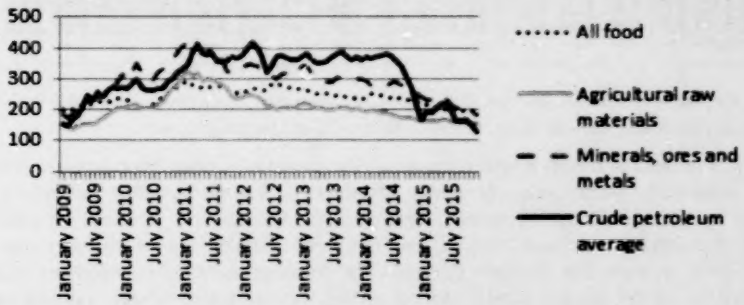
12. With regard to technical assistance, the Special Unit on Commodities conducts activities mostly aimed at strengthening policymaking capacity in CDDCs. A project is currently being implemented in minerals-producing countries in central Africa (see box 3). The implementation of another multi-State project, which aims at strengthening capacity in generating benefits from the use of cotton by-products in member States of the Common Market for Eastern and Southern Africa, is slated to begin in 2016.

II. Recent developments in commodity markets and macroeconomic consequences for commodity-dependent developing countries

1. Key market trends

13. There have been two major recent developments in commodity markets in recent years – a sharp drop in prices and a decline in price volatility – yet both remain at levels higher than before the commodity boom in 2004–2011. As shown in figure 1, commodity prices have experienced a significant drop since their 2011 peak with, as of mid-2014, a rapid decline in oil prices, which fell by 52 per cent between August 2014 and January 2015. In comparison, metals prices dropped by 12.8 per cent over the same period. Prices of food and raw agricultural products have proven more resilient, with price falls of -7.5 per cent and -8.3 per cent, respectively.[4]

Figure 1
Monthly commodity price indices, 2009–2015



Source: UNCTAD secretariat calculations based on data from UNCTADStat, available at http://unctadstat/EN/Index.html.
Note: 100 = 2000.

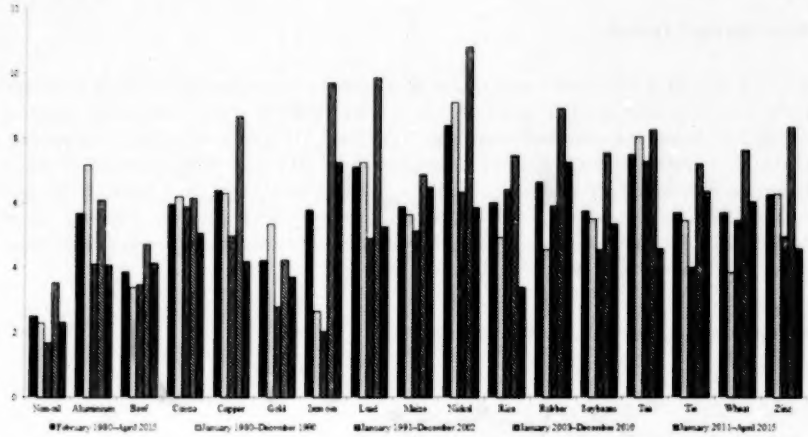
14. The downturn in commodity prices was associated with a relative decline in price volatility, after a dramatic rise during the commodity boom. For example, the average volatility of the UNCTAD non-oil commodity price index soared to 3.6 per cent from July 2003 to March 2011, from below 2 per cent in 1991–2002, then decreased to roughly 2.3 per cent from January 2011 to April 2015. A similar pattern may be observed with regard to many specific commodities, as shown in figure 2.

[4] For further details on market trends, see TD/B/C.I/MEM.2/33.

Figure 2

Average volatility measured as standard deviation of changes in monthly prices, selected commodities

(Percentage)



Source: JD Nkurunziza and K Tsowou, forthcoming, Volatility in global commodities markets and implications for diversification policies, *International Journal of Emerging Markets*.

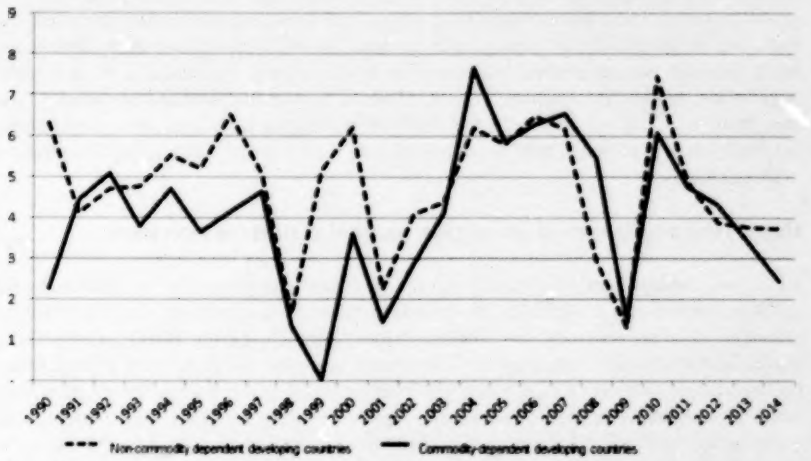
15. It is difficult to predict whether this reversal in commodity prices represents the end of the commodity super cycle. A number of structural factors, including geopolitics, changes in the global macroeconomic environment, demographic pressure, resource scarcity and climate conditions, may reverse this trend. Similarly, price volatility may bounce back, in particular if prices rebound. The financialization of commodities and unpredictable supply shocks, notably due to erratic weather patterns, may translate to further financial speculation on commodity markets, with higher prices and volatility.

16. Current market trends have dramatically impacted the export revenues of major commodity exporters, with a direct effect on overall growth prospects. While CDDCs had overperformed compared with other developing countries in 2003–2009 in terms of economic growth, they are now underperforming compared with other developing countries, returning to their historical lower-level growth patterns, as shown in figure 3. Most CDDCs remain both exporters and importers of commodities, which implies that the terms of trade effect induced by the reversal of commodity prices may have partially offset the welfare loss due to the drop in their export revenues. For example, following the recent oil price shock, the International Monetary Fund significantly reduced its growth forecasts for most CDDCs. In January 2015, the Fund noted that the "impact of lower oil and other commodity prices on the terms of trade and real incomes is now projected to take a heavier toll on medium-term growth".[5] In October 2015, the Fund noted that CDDCs had experienced a downgrade in their medium-term growth prospects of almost 1 percentage point of the average of their five-year-ahead growth forecasts since 2012.[6]

[5] International Monetary Fund, 2015, World economic outlook update, available at http://www.imf.org/external/pubs/ft/weo/2015/update/01/pdf/0115.pdf (accessed 20 January 2016).

[6] International Monetary Fund, 2015, *World Economic Outlook October 2015: Adjusting to Lower Commodity Prices* (Washington, D.C.).

Figure 3
Economic growth in commodity-dependent developing countries and non-commodity dependent developing countries in real terms, 1990–2014
(Percentage)



Source: UNCTAD secretariat calculations based on data from UNCTADStat.

17. As the Governments of most CDDCs rely on commodity revenues to balance their budgets, the reversal in commodity markets has had a dramatic impact on public finances. For example, in African CDDCs, public revenues dropped from an average of 26.1 per cent of gross domestic product (GDP) between 2004 and 2007, before the 2008 economic crisis, to 21.2 per cent of GDP between 2011 and 2014. As a result, these countries saw deteriorations in their average primary budget balances between the two periods, from a surplus of 3.6 per cent of GDP to a deficit of 1.8 per cent of GDP.

18. The downward trend of commodity prices has been particularly damaging in States in which Governments may not have anticipated the reversal of commodity price trends, for example by keeping their production costs competitive and managing additional flows of revenue through a stabilization fund. Countries such as Angola, Iraq, Nigeria and the Bolivarian Republic of Venezuela, whose budgets are heavily dependent on proceeds from oil exports, have had to adopt more restrictive budgets relative to previous years. Budget estimates were based on high breakeven oil prices, that is, levels required to balance past budgets. In the Islamic Republic of Iran and the Bolivarian Republic of Venezuela, for example, breakeven prices per barrel were about $130 and $160, respectively. This level was high even by 2014 standards, when the average price of oil hovered between $100 and $110 before starting a dramatic decline in June 2014, reaching an average of about $54 by June 2015. Countries that had built large foreign currency reserves during the commodity boom were also affected. Saudi Arabia, for example, drew on its large foreign currency reserves to cover a shortfall in resources in 2015, and cut some non-essential investments and spending.

19. Lower commodity prices may lead to a surge in public debts and financing costs, as Governments borrow to fill the gap from lost export income and public revenue.[7] In Nigeria, for example, the cost of servicing public debt has dramatically increased following the drop in oil prices, to the extent that debt service costs are expected to

[7] Such a scenario occurred after the commodity countershock in 1977–1979, fuelling the debt crisis in the 1980s.

represent 26 per cent of public spending in 2015.[8] Furthermore, difficulties faced by CDDCs in balancing public budgets have been amplified by weakening national currencies, which suffered from deteriorations of external accounts. In 2014–2015, currencies in many CDDCs, including the Zambian kwacha, Angolan kwanza and Brazilian real, recorded some of their strongest depreciations against the United States of America dollar in several years. Imports became more expensive at a time of reduced export revenue, deepening the trade and budget deficits of these countries. Some countries in which budget deficits are being financed through external borrowing amid an economic slowdown, such as Angola, Nigeria and Zambia, may become exposed to currency risks and debt unsustainability, and thus there is a risk of default in the medium to long term. In the short term, strong indebtedness is expected to lead to deterioration in the sovereign risk and creditworthiness of these countries.[9]

2. Recurring challenges of managing natural resources revenues

20. The management of natural resources revenues raises a number of challenges for CDDCs, related to the difficulty of collecting taxes on commodities and the efficient utilization of such revenues. Tax evasion, notably through transfer pricing mechanisms, results in difficulties in collecting such revenues. As a result of such fiscal arrangements, the tax administrations of CDDCs face important technical issues, such as the use of pricing date conventions that appear to enable the adoption by taxpayers of the most advantageous quoted price. Similarly, adjustments to quoted prices by charging artificial fees to taxpayers in commodity-producing countries through other entities of a group, and the involvement in the supply chain of entities located in no or low-tax jurisdictions, create issues that are difficult for the tax administrations of CDDCs to address.[10]

21. The optimal budget allocation of such revenues is also highly challenging and can lead to rent seeking, conflict and social tensions.[11] Commodity revenues have often been used during commodity booms to accumulate financial assets in the public and private sectors. This practice may be useful in hedging against price volatility and reducing the risks of Dutch disease[12] linked to a massive inflow of revenue, but implies foregone investment in fixed capital or on spending on health and education, which are essential for development.

22. The challenges of mobilizing domestic resources for medium to long-term development remain substantial in many CDDCs, which have generally not sufficiently increased their expenditures in social services. The World Bank, in its country policy and institutional assessment, highlights that the quality of social inclusion and equity policies is lower in resource-rich sub-Saharan African countries than in non-resource-rich sub-Saharan African countries. Rises in public health and education expenditures remain slow and uneven among CDDCs, with dramatic implications for poverty reduction. For example, in Angola, the proportion of public expenditures allocated to health and education rose from

[8] PricewaterhouseCoopers, 2015, Nigeria's 2015 budget: Fiscal and macroeconomic analyses, available at http://www.pwc.com/ng/en/assets/pdf/nigerias-2015-budget.pdf (accessed 20 January 2016).

[9] United Nations, 2016, *World Economic Situation and Prospects 2016* (New York, Sales No. E.16.II.C.2).

[10] Organization for Economic Cooperation and Development (OECD), 2015, Action plan on base erosion and profit shifting action 10: Transfer pricing aspects of cross-border commodity transactions, available at http://www.oecd.org/ctp/transfer-pricing/discussion-draft-action-10-cross-border-commodity-transactions.htm (accessed 20 January 2016).

[11] P Collier and A Hoeffler, 2005, Resource rents, governance and conflict, *Journal of Conflict Resolution*, 49(4):625–633.

[12] This term denotes an eviction effect that may occur when there is a boom in export revenue, notably from natural resources, which may lead to the appreciation of exchange rates and a loss in the competitiveness of local industries that, in turn, hampers investment and job creation.

2.9 per cent and 5.3 per cent, respectively, in 2000, to 6.3 per cent and 8.7 per cent, respectively, in 2010. However, these levels remain low in comparison to those of most developing countries. For example, according to World Bank indicators, in 2010, the least developed countries as a group dedicated 9.7 per cent of total public expenditures to health.

23. In Africa, the strong growth that countries experienced over the past decade is estimated to have been driven mostly by the high prices of primary commodity exports. Due to this economic boom, the proportion of people living below the poverty line of $1.90 per day (2011 purchasing power parity) decreased in sub-Saharan Africa by 25.4 per cent in relative terms (from 57.1 to 42.7 per cent) between 2002 and 2012. Nevertheless, other regions performed better; this proportion decreased by 57.6 per cent and 54 per cent, respectively, in Latin America and South Asia.[13] *The Millennium Development Goals Report 2015* stated that the poverty situation had worsened in the following CDDCs: Central African Republic; Côte d'Ivoire; Guinea-Bissau; Kenya; Madagascar; Nigeria; and Zambia.[14] Similarly, with regard to the target to halve the proportion of people who suffer from hunger, Chad and Gabon were classified among those that had made marginal progress.

24. Results also vary for other Millennium Development Goal indicators. With regard to child mortality, for example, 18 of the 20 countries "estimated to have been responsible for more than 92 per cent of children under five [years of age] lives saved" by 2015 were African and most were CDDCs.[15] The highest level of progress was registered in Nigeria, although it fell short of achieving the target.

3. Smallholders, food security and export competitiveness

25. *Commodities and Development Report 2015* focuses on small-scale producers. Acknowledging that the size threshold for a small farm differs across countries, regions and socioeconomic contexts, the report focuses on those with 2 hectares or less of land. The report underscores the importance of smallholders for food security, as they control only 12 per cent of all agricultural land but produce more than 80 per cent of the world's food, in value terms. However, as detailed in the report, agriculture has suffered from policy neglect for many decades. As a result, in the poorest CDDCs, in particular in sub-Saharan Africa, agricultural productivity gains remain insufficient to allow for agricultural transformation. However, as noted in *The Least Developed Countries Report 2015: Transforming Rural Economies*, rural transformation "will be central to the quantum leap in the rate of progress required" for the least developed countries to accomplish the Sustainable Development Goals.

26. In addition, *Commodities and Development Report 2015* provides new evidence on the degree of integration of smallholders in the global economy, highlighting that although such integration remains limited, smallholders are vulnerable to negative shocks in international commodity markets. The report states that a better alignment of policies, pledges and actions at national, regional and international levels is needed in order that smallholders, from farmers to other actors along agricultural value chains, may become sustainable business entities. Considering their potential in contributing to the acceleration of poverty reduction, smallholders, including women and youth, must be fully recognized as key development agents, able to improve the export competitiveness of developing countries. In this regard, both *Commodities and Development Report 2015* and *The Least*

[13] World Bank, 2015, PovcalNet, available at http://iresearch.worldbank.org/PovcalNet/.

[14] United Nations, 2015, *The Millennium Development Goals Report 2015* (New York).

[15] Brookings, 2015, 15 million success stories under the Millennium Development Goals, 24 September, available at http://www.brookings.edu/blogs/up-front/posts/2015/09/24-million-success-stories-millennium-development-goals-mcarthur (accessed 20 January 2016).

Developed Countries Report 2015 stipulate the need to mainstream gender considerations into the design of agricultural policies. Doing so will play a key role in achieving Sustainable Development Goal 1 (end poverty in all its forms everywhere) and Goal 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture).

III. Enduring policy lessons for commodity-dependent developing countries

27. The challenges facing the Governments of CDDCs may seem daunting, yet progress in achieving development goals may be accelerated through a more systematic adoption of some policy recommendations that UNCTAD has made over the years, which are highlighted in this chapter, including references to recent UNCTAD research or activities of direct relevance to CDDCs.

1. Improve the management of natural resources

28. As emphasized by the multi-stakeholder Working Group on Commodities Governance established in 2014, improving transparency and accountability in the commodity value chain is key to the development of the commodity sector. The situation in Chile illustrates the benefits that may be derived from adopting such an approach. In the mid-1990s, Chile began a process of collective change based on a long-standing process of building a stable political environment, solid institutions and sound macroeconomic policies and a consistent legal framework, including on taxation and investment laws that allowed for substantive increases in the collection of resource revenues, as well as the establishment of three stabilization funds that helped manage commodity revenues during the boom. A pro-transparency agenda was adopted and became increasingly formalized after 2002–2003, with a law in 2008 increasing public access to information and the creation of an independent agency, the council for transparency, to monitor compliance with transparency and access to public data. This process was associated with sustained efforts to improve the management of copper revenues, leading to a structural economic transformation of the Chilean economy and the reduction by two thirds, to less than 1 per cent, of the share of its population living on less than $1.90 a day (2011 purchasing power parity).

2. Maximize the development linkages of the commodity sector

29. The development of the agricultural sector in agriculture-rich economies contributes to effective poverty reduction and inclusive growth. In such countries, agricultural growth leads to consumption and production linkages in the overall economy, contributing to poverty reduction. However, as demonstrated in *Commodities and Development Report 2015*, to be effective, agricultural development strategies must provide a central role to smallholder farming.

30. In minerals-rich countries, there have been efforts to design frameworks to optimize the use of resource rents to promote a diversified industrial base. The difficulties caused by falling oil prices in recent years have led many oil-rich countries to adopt policy measures that tend to maximize both fiscal and production linkages. For example, in Nigeria, until 2014, 70 per cent of public revenue was derived from oil. The shortfall in public resources generated by low oil prices led the Government to expand its fiscal base and improve its capacity for tax collection. In January 2011, the Government introduced a new national tax

policy with reforms that included improvements in the efficiency of tax collection.[16] This exercise was estimated to have led to the collection of $600 million worth of additional taxes by early 2015.[17]

31. With regard to production linkages, many countries have adopted legislation or policy measures geared towards maximizing forward linkages by adding value through processing and refining. Such initiatives are generally labelled local content policies. A country's ability to turn local content legislation into tangible outcomes for economic and social development depends on a number of factors. First, the country must have an appropriate human resources, legal, financial and technological environment. Second, maximizing the development linkages of the mineral resources sector partly depends on the capacity of a CDDC to maximize its interests in contract negotiations with potential investors, especially in the oil, gas and mining sectors. Third, local content legislation must be established in accordance with a country's commitment with regard to compliance with the Agreement on Trade-Related Investment Measures and General Agreement on Trade in Services of the World Trade Organization. Local content requirements contain specifications of obligations to contract local service providers or employ local staff in specific services sectors. As such, these requirements may challenge compliance with article XVI of the General Agreement on Trade in Services on provisions regarding market access and national treatment that may affect foreign suppliers. However, as the disciplines of the Agreement only apply to those services sectors that a member of the World Trade Organization has included in its schedule of commitments, most developing countries have more flexibility, due to the limited number of commitments that they have made.[18] Local content legislation must also be in line with specifications laid out in bilateral investment treaties that the country has signed, specifically the extent to which non-discrimination provisions such as national treatment and most-favoured nation obligations affect the proposed local content requirements.

32. Local content requirements are not a panacea, however, and are not effective if not supported by broader efforts designed to develop a country's productive capacities. In recognition of the need for a broader enabling environment and stronger productive capacities in beneficiary countries, UNCTAD and its Special Unit on Commodities is assisting three countries in central Africa in strengthening their capacity to design policies for maximizing the development linkages of their mineral resources sectors (see box 3).

[16] African Development Bank, OECD, United Nations Development Programme, United Nations Economic Commission for Africa, 2012, *African Economic Outlook 2012* (Paris, OECD Publishing).

[17] N Okonjo-Iweala, 2014, Interview in *Jeune Afrique*, available at http://www.jeuneafrique.com/2714/economie/ngozi-okonjo-iweala-les-gens-ont-une-perception-tellement-injuste-du-nigeria/ (accessed 20 January 2016).

[18] I Ramdoo, 2015, Unpacking local content requirements in the extractive sector: What implications for the global trade and investment frameworks?, The E15 Initiative Expert Group on Trade and Investment in Extractive Industries Think Piece (International Centre for Trade and Sustainable Development and World Economic Forum).

Box 3. Maximizing the development linkages of the mineral resources sector in central Africa

From 2015 to 2017, the Special Unit on Commodities will implement a project financed by the ninth tranche of the United Nations Development Account. The project, undertaken in close collaboration with the African Minerals Development Centre at the United Nations Economic Commission for Africa, will initially be implemented in three countries, namely Chad, the Congo and Equatorial Guinea. The objective of the project is to strengthen the capacity of policymakers in the member countries of the Economic Community of Central African States to design policies for maximizing the development linkages of their mineral resources sectors. The project's approach is fully inclusive, and based on promoting dialogue among political leaders, local business organizations and professional associations and foreign investors on ways and means of ensuring that investments in minerals activities facilitate the creation of new economic activities, jobs and subcontracting opportunities, particularly between foreign companies and local enterprises. The project also aims to address shortcomings in legal and regulatory frameworks.

33. Part of the drive towards developing local content frameworks is due to the concern to maximize the impact of the commodity sector on job creation. Efforts to create strong linkages between the extractive sector and other sectors of the economy have been constrained by poor infrastructure and limited technology, skills and finance. As part of its investment policy advocacy work for two extremely CDDCs, Mongolia and Mozambique, UNCTAD has highlighted the limited impact of mining megaprojects on job creation and on generating linkages with the local economy.[19] Such messages and accompanying policy recommendations have been disseminated at various national multi-stakeholder policy forums in the respective countries. In recognition of the persistent challenges of sustainable job creation in extractive industries, the theme of the Seventeenth Africa Oil, Gas and Mines Conference and Exhibition was sustainable job creation. The Conference was an opportunity for participants to share experiences, including of successful integration along oil, gas and minerals value chains.

3. Recognize the perennial need for industrialization

34. CDDCs should carefully consider the specificities of their own contexts and the trade-offs between short-term gains and long-term costs in designing their industrial development strategies.

35. The ability to seize international market share varies across regions and countries, as shown by the variations in patterns of integration into the global economy across regions. *Economic Development in Africa Report 2011* showed that Africa is losing ground in labour-intensive manufacturing whereas other regions are proving more ready to seize new opportunities in the global economy. The report noted that the share of labour-intensive manufacturing activities in manufacturing value added fell from 23 per cent in 2000 to 20 per cent in 2008. It stressed the need to develop country-specific industrial development strategies while highlighting the following principles: supporting and challenging entrepreneurs; building effective State and business relations; focusing on lifting obstacles to industrial development; and putting in place a mechanism for monitoring, evaluation and accountability. The report stressed that industrialization should not be achieved at the expense of the agricultural sector. Rather, African countries should strengthen linkages

[19] UNCTAD, 2012, *Investment Policy Review: Mozambique* (New York and Geneva, Sales No. 12.II.D.11, United Nations publication); UNCTAD, 2013, *Investment Policy Review: Mongolia* (New York and Geneva, United Nations publication).

between their agricultural and non-agricultural sectors. This recommendation is of particular relevance in agriculture-based CDDCs.

4. Invest in infrastructure development

36. Infrastructure plays a crucial role in all areas of economic and social life and is critical to building a country's productive capacity. Investment in infrastructure should therefore be among the top priorities of CDDCs. UNCTAD estimates show that developing countries will need to invest $1.6 trillion to $2.5 trillion annually in power, transport, telecommunications, water and sanitation between 2015 and 2030 towards accomplishing the Sustainable Development Goals. However, developing countries may face an annual investment gap of $0.75 trillion to $1.6 trillion through to 2030. Public financing may not be enough and private investments should therefore play a key role in filling this large gap. Infrastructure is considered one of the sectors with a high level of potential for channelling private sector investment and also capable of generating large multipliers.[20] However, private investment tends to neglect pro-poor basic services in remote areas.

37. Infrastructure development in transport, connectivity, storage and logistics capacity is essential for economic activities, in particular for trading in CDDCs. The need for greater investment in transport infrastructure is of particular relevance to landlocked CDDCs due to their geographical constraints and remoteness from international markets. UNCTAD research on landlocked developing countries suggests that these countries as a group have become increasingly commodity dependent during the past decade. Measures of export concentration show for example a median level of Herfindahl-Hirschman indices of 0.40 in these countries in 2011–2013. Export diversification is thus a concern for these countries.[21]

38. During the commodity boom, while CDDC foreign currency reserves rose dramatically, leading to a surge in commodity-based sovereign wealth funds, there was little evidence that this rise had translated into similar increases in investments in infrastructure. For example, despite the considerable financial assets held by African commodity exporters during the commodity boom, the Programme for Infrastructure Development in Africa, responsible for promoting infrastructure development in the region, has not succeeded in collecting the $68 billion required for regional infrastructure investments between 2012 and 2020 (only $38 billion was funded up to 2015).

39. As advocated in *Commodities and Development Report 2015*, investments in infrastructure projects of low commercial value need to be supported by public sector finance through grants, concessional loans and guarantees. Where long-term financing by development banks has been insufficient, public–private partnerships have played a role in the launching of major infrastructure projects, such as the multidimensional, multi-donor Kalangala Integrated Infrastructure Programme in Uganda, which involves the development of roads, ferry operations and power and water supplies. However, a review of public–private partnerships in *Trade and Development Report, 2015: Making the International Financial Architecture Work for Development* shows that they have not delivered on their promises in the provision of pro-poor basic services, for example in water-related projects. The analysis of historical trends of public–private partnerships in the report shows that they do not succeed in creating additional finance in a real economic sense and have often led to

[20] UNCTAD, 2014, *World Investment Report 2014* (New York and Geneva, Sales No. E.14.II.D.1, United Nations publication).

[21] UNCTAD, 2015, *Facilitating the Participation of Landlocked Developing Countries in Commodity Value Chains* (New York and Geneva, United Nations publication).

greater obligations and liabilities than anticipated for Governments.[22] In most countries, the State remains the main provider of finance.[23]

5. Make investment and competition policies smallholder friendly

40. The development of the domestic private sector should be an important target of investment policy. In doing so, as emphasized in *Economic Development in Africa Report 2014*, specific efforts should be devoted to strengthening linkages between local and foreign enterprises and using aid to stimulate investment. UNCTAD estimates show that in 2004–2014, foreign direct investment stock tripled in the least developed countries and small island developing States, and quadrupled in the landlocked least developed countries.[24] With a concerted effort by the international community, it could quadruple by 2030. This trend may be beneficial to such vulnerable economies, but careful attention should be devoted to investigating the extent of concentration in international commodity production and trade in global value chains in a few transnational corporations. For example, four commodity multinationals control over 60 per cent of the global coffee market, while three control 85 per cent of the global tea market. Mergers and acquisitions have contributed to the emergence of large players who control significant market shares of commodities such as cocoa, vegetable oils, grains and bauxite.

41. Considering the central role of job creation in generating a more inclusive and poverty-reducing growth path, the trend towards concentration in the commodity sector should raise concerns in CDDCs, as the potential for job creation is considered highest among smaller businesses. As underlined in *Economic Development in Africa Report 2013*, stimulating domestic entrepreneurship may in turn lead to boosting intra-African trade and provide the basis for developmental regionalism. Anti-competitive practices not only harm smaller businesses but also the poor, who are disproportionately affected by, for example, malpractices in public procurement. However, a review by UNCTAD of current practices shows that very few competition agencies in developing countries have been able to successfully detect and prosecute cartels.[25]

42. With regard to the agricultural sector, *Commodities and Development Report 2015* acknowledges the potential benefits of foreign direct investment but also notes the lack of safeguards for smallholders in most investment policy frameworks in developing countries. The report states that there is little evidence that the specific needs of smallholders are reflected in investment policies, and advocates for the introduction of safeguards for smallholders in investment law and investment contracts. Specific legal and regulatory tools should be designed for the development of inclusive business models that address the particular needs of small actors in the agricultural value chain. The establishment of such an enabling environment is critical to the capacity of smallholders to establish viable business enterprises.

43. A recent review of cartels and other anti-competitive practices in minerals markets shows that at the international level, minerals markets are more sensitive to export restrictions unilaterally imposed by producer countries. Such restrictions are attributed to

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[22] UNCTAD, 2015, *Trade and Development Report, 2015: Making the International Financial Architecture Work for Development* (New York and Geneva, Sales No. E.15.II.D.4, United Nations publication).

[23] M Warner, D Kahan and S Lehel, 2008, Market-oriented agricultural infrastructure: Appraisal of public–private partnerships, Agricultural, Management, Marketing and Finance Occasional Paper No. 23 (Food and Agriculture Organization of the United Nations).

[24] UNCTAD, 2015, *World Investment Report 2015: Reforming International Investment Governance* (New York and Geneva, Sales No. E.15.II.D.5, United Nations publication).

[25] UNCTAD, 2014, *UNCTAD Perspective: Competition and Consumer Policy 2013* (New York and Geneva, United Nations publication).

the pressure of powerful lobbies for preferential access to domestic raw materials in some large developing countries.[26] Three quarters of global mine production is controlled by private companies, most of which are transnational companies. Barriers to entry in related sectors are due to the significant know-how and capital requirements and high levels of investment risks that characterize them, which make it difficult for smaller new entrants to penetrate the market.

44. Cartels no longer officially exist, yet companies may use subtler forms of market manipulation. Between 2000 and 2010, there were at least 15 cases where anti-trust authorities uncovered and punished attempts to form clandestine international private cartels in mining and primary metals.[27] Similarly, regulatory agencies of developed countries have identified manipulation in pricing mechanisms in gold and silver markets.[28] The increasing complexity of global and physical markets and the growth in the number of actors involved, including in banking and other financial institutions, underline the need to devote resources to regulatory agencies in order to help them perform their increasingly complex role. In addition to being essential for consumer protection, well-crafted and well-enforced competition law helps ensure that small and medium-sized enterprises are given opportunities to enter all sectors of the economy.

IV. Selected issues of relevance to commodity-dependent developing countries, and conclusion

45. Commodity-based development is at a crossroads. Commodity dependence amplifies the challenges faced by CDDCs on their path to sustainable development. Breaking the trap of commodity dependence is a necessary condition for achieving the post-2015 sustainable development agenda. Against the backdrop of falling commodity prices, UNCTAD re-emphasizes the need for CDDCs to accelerate the process of moving up commodity value chains, maximize the development linkages of the commodity sector and diversify their economies in their drive towards a sustainable development path. This will not be easy, but maintaining the status quo will not be politically and economically sustainable. This chapter highlights UNCTAD research and emerging issues in international agreements and in the literature of relevance to developing countries, including CDDCs.

1. Environmental issues

46. The increasing importance of environmental issues and the recently concluded agreement at the twenty-first Conference of the Parties of the United Nations Framework Convention on Climate Change are likely to lead to a more environmentally stringent era for fossil fuel-producing countries and for CDDCs dependent on intensive agriculture. Some countries have started seizing opportunities linked to climate-friendly development. One of the first countries to submit its intended nationally determined contributions prior to the twenty-first Conference of the Parties, Gabon – an oil-dependent economy – has outlined its ambition to reduce its cumulative emissions by 65 per cent by 2025; its approach emphasizes investments in technologies to reduce gas flares, the building of policies and tools for climate-friendly management of its forests and land and the development of renewable energies.

47. With regard to agriculture, *Commodities and Development Report 2015* notes that developing countries seeking to develop their agricultural sectors should not replicate the

[26] J Kooroshy, F Preston and S Bradley, 2014, Cartels and competition in minerals markets: Challenges for global governance, Chatham House, the Royal Institute of International Affairs.

[27] Ibid.

[28] Ibid.

experiences in some countries in Asia and Europe in which the overuse of fertilizers has resulted in pollution and the degradation of natural resources. In China, for example, according to some estimates, agriculture accounts for more than 15 per cent of its total greenhouse gas emissions and for nearly 90 per cent of its nitrous oxide emissions, largely due to excessive fertilizer use. The Chinese Government has been proactively promoting a green agricultural development model in recent years, yet reversing the damage caused by previous practices is challenging, thus demonstrating the limits of agricultural models that focus on short-term yield gains as opposed to long-term goals.

2. Science, technology, innovation, information and communications technology and services

48. The experience of successful development paths shows that science, technology and innovation are key drivers of economic and social development. Science, technology and innovation policies can help raise productivity, improve firm competitiveness and contribute to faster growth and job creation. With regard to CDDCs, such policies should adopt innovation that assists in diversifying away from primary commodities, fosters indigenous technologies and adopts and adapts foreign innovations, in the context of an adequate intellectual property rights regime.

49. *Technology and Innovation Report 2015: Fostering Innovation Policies for Industrial Development* includes case studies of two CDDCs, namely Nigeria and the United Republic of Tanzania. The report notes that both States experienced impressive growth rates over the past decade yet faced difficulties in channelling research and development expenditure towards technological learning. Higher levels of expenditure on research and development as a percentage of GDP in the 2000s did not result in greater technological learning, particularly at the firm level, as shown in the lack of higher levels of exports of medium and higher technology products. In many agricultural developing countries, technology policy implicitly or explicitly promotes a commercial process of technology adoption that is not adapted to the means and capacity of most smallholders. In addition, spending on research and development has been both low and highly volatile, particularly in low-income countries in which research and development is dependent on external funding, from both donors and development banks. UNCTAD advocates establishing a research and development agenda that fosters environmental sustainability and takes into account the traditional knowledge of smallholding farmers. Evidence shows that such an approach is a necessary condition for agricultural development, leading to tangible results.

50. UNCTAD also emphasizes the need for developing countries to make the most of the development of information and communications technology. The worldwide spread of mobile telephony and communications systems, growth of Internet networks and widespread use of broadband infrastructure have contributed to changing international production and trade patterns. To make the most of the growing opportunities in areas such as electronic commerce, as highlighted in *Information Economy Report 2015: Unlocking the Potential of E-commerce for Developing Countries*, Governments need to invest in infrastructure and create appropriate legal, institutional and policy frameworks.

51. A number of development experts have suggested that the advent of the Internet and information and communications technology and other emerging technologies may allow developing countries to leapfrog into the services economy and benefit from its

development opportunities, particularly in Africa.[29] In addition to the advantages offered in these sectors, CDDCs should continue to establish the basis for sustainable transformation.

52. Seizing such new opportunities requires financing. To this end, although improving access to traditional finance remains a critical issue, the current development of a new set of innovative financing mechanisms, notably in agricultural value chains, is a welcome trend.[30]

3. New developments in international trade agreements

53. The ministerial decisions on export competition and on cotton of the Tenth Ministerial Conference of the World Trade Organization reflect a move away from the status quo that has characterized negotiations on these issues over the past years.[31]

54. The ministerial decision on cotton calls for cotton from the least developed countries to be given duty-free and quota-free access to developed country markets as of 1 January 2016. The text does not, however, provide binding commitments but rather best endeavour outcomes, and does not address domestic support for cotton and global farm subsidies. Furthermore, as emphasized by UNCTAD, to make the most of this market access, the least developed countries need to devote more resources to building capacity in their cotton sectors at the production, transformation and marketing levels, as highlighted in the pan-African cotton road map.[32]

55. The ministerial decision on export competition includes a commitment to immediately eliminate subsidies for farm exports (article 4). The decision spells out specific conditions for processed products, dairy products and swine meat in a footnote.[33] In addition, the decision gives developing countries until 2023 to remove their subsidies and the least developed countries until 2030 to meet their commitments.

56. Beyond these issues of direct relevance to CDDCs, there are divergent points of view on the outcomes of the Tenth Ministerial Conference, including on the issue of reaffirmation of the Doha Development Agenda. The decision on public stockholding for food security purposes reaffirms the peace clause reached in Bali, Indonesia in December 2013 and commits the Agriculture Committee of the World Trade Organization to ensure that the issue is resolved at the next ministerial conference.[34] No decision was made on special safeguard mechanisms for developing countries. This demand had been

[29] See for example UNCTAD, 2015, *Economic Development in Africa Report 2015: Unlocking the Potential of Africa's Services Trade for Growth and Development* (New York and Geneva, Sales No. E.15.II.D.2, United Nations publication).

[30] See, for example, the developments reviewed in *Commodities and Development Report 2015*.

[31] World Trade Organization, documents WT/MIN(15)/45 and WT/MIN(15)/46, available at http://www.wto.org/english/news_e/news15_e/mc10_19dec15_e.htm (accessed 20 January 2016).

[32] UNCTAD, 2014, *Pan-African Cotton Road Map* (New York and Geneva, United Nations publication).

[33] "This paragraph shall not cover processed products, dairy products and swine meat of a developed member that agrees to eliminate as of 1 January 2016 all export subsidies on products destined for least developed countries, and that has notified export subsidies for such products or categories of products in one of its three latest export subsidy notifications examined by the Committee on Agriculture before the date of adoption of this decision. For these products, scheduled export subsidies shall be eliminated by the end of 2020, and quantity commitment levels shall be applied as a standstill until the end of 2020 at the actual average of quantity levels of the 2003–2005 base period. Furthermore, there shall be no export subsidies applied either to new markets or to new products" (World Trade Organization, document WT/MIN(15)/45).

[34] World Trade Organization, document WT/MIN(15)/44, available at http://www.wto.org/english/news_e/news15_e/mc10_19dec15_e.htm (accessed 20 January 2016).

made under the special and differential treatment clause in order to protect developing country food producers from import surges.

4. Conclusion

57. CDDCs, particularly the least developed countries with a strong agricultural potential, should invest more in their domestic agricultural sectors and make greater use of existing special and differential treatment clauses within current multilateral trade rules. In doing so, they should honour budgetary pledges made for the development of agricultural sectors. Similarly, the international community should strive to make existing aid pledges a reality. More resources need to be devoted to the agricultural sector. Estimates by the OECD Development Assistance Committee show that aid to agriculture and rural development fell continuously between the mid-1980s and 2004 and have shown an upward trend since then. According to the latest figures available, agriculture and food received 6 per cent of total official development assistance in 2012.[35] To increase the impact of aid on poverty, more attention should be devoted to allocating such resources to the needs of smallholders.

58. Among the set of policy messages, the urgency of achieving the Sustainable Development Goals in CDDCs calls for a development policy framework that makes the most of their commodities while at the same time being mindful of human rights, taking into account new environmental imperatives and adopting socially and politically sustainable approaches. Achieving such objectives may be made easier through a continuous process of levelling the playing field in the global regulatory systems for trade, investment and technology.

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[35] For further details, see OECD, 2010, Measuring aid to agriculture, available at http://www.oecd.org/dac/stats/44116307.pdf (accessed 20 January 2016); OECD, 2012, Trends in aid to agriculture and rural development, in: OECD, *Development Cooperation Report 2012: Lessons in Linking Sustainability and Development* (Paris, OECD Publishing), available at http://www.oecd-ilibrary.org/development/development-co-operation-report-2012/managing-watersheds-for-resilient-livelihoods-in-ethiopia_dcr-2012-15-en (accessed 20 January 2016); OECD, 2015, Creditor reporting system, available at http://stats.oecd.org/; and United Nations Department of Economic and Social Affairs, 2015, Improving official development assistance allocation for a post-2015 world, available at http://www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world.pdf (accessed 20 January 2016).